

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

*with independent auditor's report*

**Consolidated financial statements Open joint stock company Interregional  
Distribution Grid Company of Centre and its subsidiaries**

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## **Independent auditor's report**

To the shareholders and Board of Directors of Open joint stock company  
Interregional Distribution Grid Company of Centre

We have audited the accompanying consolidated financial statements of Open joint stock company Interregional Distribution Grid Company of Centre and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 2014, and a summary of significant accounting policies and other explanatory information.

### ***Audited entity's responsibility for the consolidated financial statements***

Management of Open joint stock company Interregional Distribution Grid Company of Centre 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.



Совершенство бизнеса,  
улучшаем мир

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Open joint stock company Interregional Distribution Grid Company of Centre and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the year 2014 in accordance with International Financial Reporting Standards.

### **Other matters**

The consolidated financial statements of Open joint stock company Interregional Distribution Grid Company of Centre and its subsidiaries for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 1 April 2014.

T.L. Okolotina  
Partner  
Ernst & Young LLC

1 April 2015

### **Details of the audited entity**

Name: Open joint stock company Interregional Distribution Grid Company of Centre  
Record made in the State Register of Legal Entities on 17 December 2004, State Registration Number 1046900099498.  
Address: Russia 127018, Moscow, 2<sup>nd</sup> Yamskaya street, 4.

### **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.

**JSC "IDGC of Centre"**

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

Thousands of Russian Roubles, unless otherwise stated

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Revenue	7	86,991,622	93,296,538
Operating expenses	8	(88,940,055)	(91,228,145)
Other income	7	1,199,392	1,307,907
<b>Results from operating activities</b>		<b>(749,041)</b>	<b>3,376,300</b>
Finance income	10	124,242	108,291
Finance costs	10	(2,773,539)	(2,436,008)
<b>Net finance costs</b>		<b>(2,649,297)</b>	<b>(2,327,717)</b>
<b>(Loss) / profit before income tax</b>		<b>(3,398,338)</b>	<b>1,048,583</b>
Income tax benefit / (expense)	11	113,817	(782,336)
<b>(Loss) / profit for the year</b>		<b>(3,284,521)</b>	<b>266,247</b>
<b>Other comprehensive income / (expense)</b>			
Net change in fair value of available-for-sale financial assets	15	(11,533)	(22,657)
Income tax on other comprehensive income		2,307	4,531
<i>Total items that are or may be reclassified to profit or loss</i>		<b>(9,226)</b>	<b>(18,126)</b>
Remeasurements of the defined benefit liability	24	585,257	(323,623)
Income tax on other comprehensive income		(43,617)	50,878
<i>Total items that will never be reclassified to profit or loss</i>		<b>541,640</b>	<b>(272,745)</b>
<b>Other comprehensive income / (expense) for the year, net of income tax</b>		<b>532,414</b>	<b>(290,871)</b>
<b>Total comprehensive (expense) / income for the year</b>		<b>(2,752,107)</b>	<b>(24,624)</b>
<b>(Loss) / profit for the year attributable to:</b>			
Owners of the Company		(3,318,288)	233,680
Non-controlling interests		33,767	32,567
		<b>(3,284,521)</b>	<b>266,247</b>
<b>Total comprehensive (expense) / income attributable to:</b>			
Owners of the Company		(2,785,874)	(57,191)
Non-controlling interests		33,767	32,567
		<b>(2,752,107)</b>	<b>(24,624)</b>
<b>(Loss) / earnings per share – basic and diluted (in Russian Roubles)</b>	21	(0.079)	0.006

These consolidated financial statements were approved on 1 April 2015:

First Deputy  
General Director  
K.A. Mikhailik




Chief Accountant  
L.A. Sklyarova



**JSC “IDGC of Centre”**  
**Consolidated Statement of Financial Position as at 31 December 2014**  
Thousands of Russian Roubles, unless otherwise stated

	Note	31 December 2014	31 December 2013
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	73,086,442	78,073,742
Intangible assets	13	590,998	615,921
Investments and financial assets	15	550,639	530,888
Other non-current assets	16	86,794	118,023
<b>Total non-current assets</b>		<b>74,314,873</b>	<b>79,338,574</b>
<b>Current assets</b>			
Cash and cash equivalents	17	395,836	1,114,942
Trade and other receivables	18	16,271,633	12,630,352
Income tax prepayment		1,003,113	908,125
Inventories	19	1,808,539	2,050,637
Other current assets		-	3,994
<b>Total current assets</b>		<b>19,479,121</b>	<b>16,708,050</b>
<b>Total assets</b>		<b>93,793,994</b>	<b>96,046,624</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	20		
Share capital		4,221,794	4,221,794
Reserves		(37,494)	(569,908)
Retained earnings		34,647,003	38,035,501
<b>Total equity attributable to equity holders of the Company</b>		<b>38,831,303</b>	<b>41,687,387</b>
Non-controlling interests		100,359	66,592
<b>Total equity</b>		<b>38,931,662</b>	<b>41,753,979</b>
<b>Non-current liabilities</b>			
Loans and borrowings	22	27,670,000	31,207,688
Finance lease liability	23	1,503	83,989
Employee benefits	24	2,051,491	2,527,351
Deferred tax liabilities	14	4,019,997	5,032,746
Trade and other payables	26	580,143	577,730
<b>Total non-current liabilities</b>		<b>34,323,134</b>	<b>39,429,504</b>
<b>Current liabilities</b>			
Loans and borrowings	22	9,609,936	1,911,919
Finance lease liability	23	82,485	493,368
Trade and other payables	26	9,202,369	10,538,522
Employee payables	25	641,845	779,118
Income tax payable		9,369	9,193
Other taxes and contributions payable	27	993,194	1,131,021
<b>Total current liabilities</b>		<b>20,539,198</b>	<b>14,863,141</b>
<b>Total liabilities</b>		<b>54,862,332</b>	<b>54,292,645</b>
<b>Total equity and liabilities</b>		<b>93,793,994</b>	<b>96,046,624</b>

**JSC “IDGC of Centre”**

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

Thousands of Russian Roubles, unless otherwise stated

	Attributable to shareholders of the Company						Non-controlling interests	Total equity
	Share capital (Note 20)	Fair value reserve for available-for-sale financial assets	Reserve for remeasurements of defined benefit plans	Retained earnings	Total			
<b>Balance at 1 January 2013</b>	<b>4,221,794</b>	<b>77,337</b>	<b>(356,374)</b>	<b>38,664,756</b>	<b>42,607,513</b>	<b>34,025</b>	<b>42,641,538</b>	
Profit for the year	-	-	-	233,680	233,680	32,567	266,247	
Net change in fair value of available-for-sale financial assets (Note 15)	-	(22,657)	-	-	(22,657)	-	(22,657)	
Remeasurements of the net defined benefit liability (Note 24)	-	-	(323,623)	-	(323,623)	-	(323,623)	
Income tax on other comprehensive income	-	4,531	50,878	-	55,409	-	55,409	
<b>Total comprehensive (expense) / income for the year</b>	<b>-</b>	<b>(18,126)</b>	<b>(272,745)</b>	<b>233,680</b>	<b>(57,191)</b>	<b>32,567</b>	<b>(24,624)</b>	
<b>Transactions with owners, recorded directly in equity</b>								
Dividends (Note 20)	-	-	-	(862,935)	(862,935)	-	(862,935)	
<b>Total transactions with owners, recorded directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(862,935)</b>	<b>(862,935)</b>	<b>-</b>	<b>(862,935)</b>	
<b>At 31 December 2013</b>	<b>4,221,794</b>	<b>59,211</b>	<b>(629,119)</b>	<b>38,035,501</b>	<b>41,687,387</b>	<b>66,592</b>	<b>41,753,979</b>	
<b>Balance at 1 January 2014</b>	<b>4,221,794</b>	<b>59,211</b>	<b>(629,119)</b>	<b>38,035,501</b>	<b>41,687,387</b>	<b>66,592</b>	<b>41,753,979</b>	
Loss / profit for the year	-	-	-	(3,318,288)	(3,318,288)	33,767	(3,284,521)	
Net change in fair value of available-for-sale financial assets (Note 15)	-	(11,533)	-	-	(11,533)	-	(11,533)	
Remeasurements of the net defined benefit liability (Note 24)	-	-	585,257	-	585,257	-	585,257	
Income tax on other comprehensive income	-	2,307	(43,617)	-	(41,310)	-	(41,310)	
<b>Total comprehensive (expense) / income for the year</b>	<b>-</b>	<b>(9,226)</b>	<b>541,640</b>	<b>(3,318,288)</b>	<b>(2,785,874)</b>	<b>33,767</b>	<b>(2,752,107)</b>	
<b>Transactions with owners, recorded directly in equity</b>								
Dividends (Note 20)	-	-	-	(75,992)	(75,992)	-	(75,992)	
Other	-	-	-	5,782	5,782	-	5,782	
<b>Total transactions with owners, recorded directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(70,210)</b>	<b>(70,210)</b>	<b>-</b>	<b>(70,210)</b>	
<b>Balance at 31 December 2014</b>	<b>4,221,794</b>	<b>49,985</b>	<b>(87,479)</b>	<b>34,647,003</b>	<b>38,831,303</b>	<b>100,359</b>	<b>38,931,662</b>	

**JSC “IDGC of Centre”**

**Consolidated Statement of Cash Flows for the year ended 31 December 2014**

Thousands of Russian Roubles, unless otherwise stated

	Note	Year ended 31 December 2014	Year ended 31 December 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>(Loss) / profit for the year</b>		(3,284,521)	266,247
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment and amortisation of intangible assets	8, 13	8,572,361	7,929,579
Loss on impairment of property, plant and equipment	8, 12	9,056,722	-
Allowance for impairment of accounts receivable	7, 8	(179,551)	8,580,958
Net finance costs	10	2 649 297	2,327,717
Provision for inventory obsolescence		1,810	(70,845)
Loss on disposal of property, plant and equipment and intangible assets		342,581	209,603
Bad debts written-off	8	34,951	3,759
Income tax expense	11	(113,817)	782,336
Adjustment for other non-cash transactions		(353 716)	(201,576)
<b>Cash flows from operating activities before changes in working capital</b>		<b>16,726,117</b>	<b>19,827,778</b>
Change in trade and other receivables		(3,495,348)	(7,743,324)
Change in inventories		261,587	13,866
Change in investments, financial assets and other non-current and current assets		5,327	31,580
Change in trade and other payables		(1,330,697)	648,387
Change in employee payables		(137,273)	(275,879)
Change in employee benefits		(78,856)	(103,956)
Change in other liabilities		3,962	144,059
Change in other taxes payable		(137,827)	378,688
<b>Cash flows from operations before income taxes and interest paid</b>		<b>11,816,992</b>	<b>12,921,199</b>
Interest paid		(2,800,649)	(2,564,345)
Income tax paid		(1,038,010)	(110,348)
<b>Cash flows from operating activities</b>		<b>7,978,333</b>	<b>10,246,506</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment and intangible assets		(12,476,557)	(15,547,371)
Proceeds from disposal of property, plant and equipment and intangible assets		7,332	25,373
Dividends received	10	25,056	19,110
Interest received	10	99,186	89,181
Proceeds from sale of investments		79	-
<b>Cash flows used in investing activities</b>		<b>(12,344,904)</b>	<b>(15,413,707)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans and borrowings		11,839,393	21,972,826
Repayment of loans and borrowings		(7,689,675)	(15,325,517)
Dividends paid		(75,666)	(823,067)
Repayment of finance lease liabilities		(426,587)	(513,691)
<b>Cash flows from financing activities</b>		<b>3,647,465</b>	<b>5,310,551</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(719,106)</b>	<b>143,350</b>
Cash and cash equivalents at beginning of the year		1,114,942	971,592
<b>Cash and cash equivalents at end of the year</b>	17	<b>395,836</b>	<b>1,114,942</b>



## **1 BACKGROUND**

### **(a) The Group and its operations**

Joint-Stock Company “Interregional Distribution Grid Company of Centre” (hereafter, JSC “IDGC of Centre” or the “Company”) and its subsidiaries (together referred to as the “Group”) comprise Russian joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 17 December 2004 based on Resolution no. 154p of 9 December 2004 and pursuant to the Board of Directors’ decision (board of directors’ meeting minutes no. 178 of 1 October 2004) and Management Board decision (Management Board minute no. 1102 of 15 November 2004) of the Russian Open Joint-Stock Company RAO “United Energy Systems of Russia” (“RAO UES”).

The Company’s registered office is 2<sup>nd</sup>, Yamskaya, 4, Moscow, 127018, Russia.

The Company’s de facto address is 2<sup>nd</sup>, Yamskaya, 4, Moscow, 127018, Russia.

The Group’s principal activity is the transmission of electricity and the connection of customers to the electricity grid. In 2013 and 2014 pursuant to orders of the Russian Ministry of Energy, "On the transfer of the functions of electricity supplier" the Group was performing power distribution services in several regions it operates (Note 7).

The Group consists of JSC “IDGC of Centre” and its subsidiaries, presented in Note 5.

As at 31 December 2014, the Government of the Russian Federation owns 85.31% of the share capital of JSC “Russian Grids” (formerly JSC “IDGC Holding”) (at 31 December 2013 – 85.31%), which in turn owns 50.23% ordinary shares of the Company. JSC “IDGC Holding” was renamed JSC “Russian Grids” following the decision made on 23 March 2013 at an Extraordinary General Meeting of Shareholders of JSC IDGC Holding.

The Government of the Russian Federation influences the Group’s activities through setting transmission tariffs.

### **(b) Russian business environment**

The Group’s operations are located in the Russian Federation, consequently, the Group is exposed to the economic and financial markets of the Russian Federation. Russia continues economic reforms and development of its legal, tax and regulatory frameworks. 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 macroeconomic factors, including devaluation of the Russian Rouble. In December 2014, the Rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

## **2 BASIS OF PREPARATION**

### **(a) Statement of compliance**

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

### **(b) Basis of measurement**

The Financial Statements are prepared on the historical cost basis except for available-for-sale financial assets measured at fair value; and property, plant and equipment which was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2007.

**(c) Functional and presentation currency**

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the functional currency of the Company and all its subsidiaries, and the currency in which these Financial Statements are presented.

All financial information presented in RUB has been rounded to the nearest thousand.

**(d) Use of estimates and judgements**

The preparation of 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 those estimates.

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

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

- Note 28 – allowances for impairment of trade and other receivables;
- Note 29 – lease classification.

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 note:

- Note 12 – determining the recoverable amount of property, plant and equipment;
- Note 24 – employee benefits
- Note 31 – contingencies.

**(e) Changes in accounting policies and data presentation**

The Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements, except for application of new standards and interpretations coming into effect on 1 January 2014.

Application of the following new standards and interpretations had no material impact on the financial position or performance of the Company:

- *Offsetting Financial Assets and Financial Liabilities* - amendments to IAS 32 *Financial Instruments: Presentation*. The amendments provide clarifications on the application of the offsetting rules of assets and liabilities and present new relevant disclosure requirements;
- *Recoverable Amount Disclosures for Non-financial Assets* – amendments to IAS 36 *Impairment of Assets*. The amendment requires extra disclosures on assessment of assets (or groups of assets), that were impaired, and their recoverable amount was determined as fair value less costs of disposal;
- *Novation of Derivatives and Continuation of Hedge* – 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;
- Interpretation IFRIC 21 *Levies*. The interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.

Certain amounts of the previous year have been adjusted to conform with the current year disclosures. .

**3 SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of consolidation**

**(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date

that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

**(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.

**(iii) Business combinations**

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

**(iv) Non-controlling interests**

Non-controlling interests are measured at their proportionate share of the acquiree’s identifiable net assets at the acquisition date.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**(v) Business combinations involving entities under common control**

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

**(b) Financial instruments**

**(i) Non-derivative financial assets**

Non-derivative financial assets comprise investments in equity, trade and other receivables, cash and cash equivalents.

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

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

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

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

*Loans and receivables*

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

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 16 and Note 18, and cash and cash equivalents as presented in Note 17.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and highly liquid investments with maturities at initial recognition of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(f)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be reliably measured are stated at cost less impairment losses.

Available-for-sale financial assets comprise equity securities.

**(ii) Non-derivative financial liabilities**

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

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

The Group classifies non-derivative financial liabilities into the other financial liability category.

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

Other financial liabilities comprise loans and borrowings, and trade and other payables.

**(c) 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 2007, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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, the costs of dismantling and removing of assets and restoring the site on

which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant 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.

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

**(ii) Subsequent expenditure**

The cost of replacing a component 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 component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component 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**

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

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

The estimated useful lives of property, plant and equipment by type of facility are as follows:

- Buildings 15 – 50 years;
- Transmission networks 5 – 20 years;
- Equipment for electricity transformation 5 – 20 years;
- Other 1 – 30 years.

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

**(iv) Leased assets**

Assets held by the Group under leases that transfer to the Group 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. 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.

Other leases are operating leases and the leased assets are not recognised in the Group’s statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognised in profit or loss on a straight line basis over the lease term.

**(v) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

**(d) Intangible assets**

**(i) Intangible assets other than Goodwill**

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, other than goodwill, 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:

- Computer software 1 – 10 years;
- Other intangible assets 1 – 10 years.

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

**(e) Inventories**

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. The cost of inventories is determined using the weighted average cost method.

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

**(f) Impairment**

**(i) Non-derivative financial assets**

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

Objective evidence that financial assets (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, 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 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, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale equity securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity securities is recognised in other comprehensive income.

**(ii) Non-financial assets**

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or 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 CGUs.

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 CGUs are allocated to reduce the carrying amount of the assets in the CGU (group of CGUs) on a pro rata basis.

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.

**(g) 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.

**(h) Revenue**

Revenue from electricity transmission is recognised based on acts of services rendered. The act is prepared in respect of each counterparty in accordance with the concluded contract on the provision of services based on the meter readings and the “boiler” tariffs approved by the Regional Energy Commission of each region of the Group’s operations.

Revenue from the sale of electricity is recognized based on:

- monthly acts of acceptance of electricity under the electricity supply agreements (electricity sale agreements) of legal entities based on the meter readings and unregulated prices formed on the retail market in the settlement period;
- monthly documents (receipts) on the consumption of utilities services by individuals based on the meter readings and tariffs approved by the Regional Energy Commission.

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The tariffs for connection services are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group’s operations. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services. Revenue is recognised 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 recognised in proportion to the stage of completion when an act of acceptance is signed by the customer.

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

**(i) Finance income and costs**

Finance income comprises interest income on cash balances and bank deposits and dividend income. 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, employee benefits and finance leases. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualified asset are recognised in profit or loss using the effective interest method.

**(j) Income tax**

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which 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.



**(k) 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.

**(ii) Defined benefits plan**

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

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

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

**(iii) Other long-term employee benefits**

The Group’s net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations as at reporting date and that are denominated in the same currency in which the benefits are expected to be paid.

The Group calculates obligation in respect of other long-term employee benefits using the projected unit credit method. Remeasurements are recognised in profit or loss in the period in which they arise.

**(iv) Short-term employee 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 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 if the obligation can be estimated reliably.

**(l) Share capital**

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

**(m) Earnings per share**

The Group presents basic 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, adjusted for own shares held.

**(n) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the Management Board, the Group’s operating decision making body, 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, the Group’s operating decision making body, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

**(o) New Standards and Interpretations not yet adopted**

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

- In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. The final version of IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of the standard on the consolidated financial statements. IFRS 14 *Regulatory Deferral Accounts* will come into effect for annual periods beginning on or after 1 January 2016. The new standard specifies the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. The Group has not yet analysed the likely impact of the standard on its financial position or performance.
- IFRS 15 *Revenue from Contracts with Customers* will come into effect for annual periods beginning on or after 1 January 2017. The new standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The Group has not yet analysed the likely impact of the standard on its financial position or performance.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible assets - Clarification of Acceptable Methods of Depreciation and Amortisation*. The amendments clarify that a revenue-based method is not considered to be an appropriate manifestation of consumption. The amendments are applicable to annual periods beginning on or after 1 January 2016, early application permitted. The Group does not expect the amendments to have material impact on its financial position and performance.
- 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 after 1 January 2015. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

**4 MEASUREMENT OF FAIR VALUES**

A number of the Group’s accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

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

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

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

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hierarchy as the lowest level input that is significant to the entire measurement.

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

Further information about the assumptions made in measuring fair values is included in the Note 28.

**5 SUBSIDIARIES**

**List of subsidiaries**

	<b>Country of incorporation</b>	<b>31 December 2014 Ownership/voting, %</b>	<b>31 December 2013 Ownership/voting, %</b>
OJSC “Energetic”	Russian Federation	100	100
OJCS “Yaroslavskaya Setevaya Company”	Russian Federation	51	51
OJSC “Yargorelectroset”	Russian Federation	100	100
OJSC “Energy Service Company”	Russian Federation	100	100
CJSC “Innovation and energy efficiency center”	Russian Federation	51	51

In September 2014 the Company as the sole shareholder of OJSC “Yargorelectroset” made a decision on liquidation of OJSC “Yargorelectroset” on voluntary basis.

The transfer of power grid facilities and other property of OJSC “Yargorelectroset” providing transmission of electricity and the connection of customers to the electricity grid to the Company as the sole shareholder is planned in 2015.

**6 OPERATING SEGMENTS**

The Group has eleven reportable segments representing branches of the Company, as described below. These are the Group’s strategic business units and are the Company’s branches. The strategic business units offer similar services representing transmission of electric power and connection services and are managed separately. In addition in 2013 and 2014 five divisions (Bryanskenergo, Kurskenergo, Oryolenergo, Tverenergo and Smolenskenergo) were performing electricity supplier functions (see Note 7). For each of the strategic business units, the Management Board, the Group’s operating decision making body, reviews internal management reports on at least a quarterly basis.

“Others” include operations of subsidiaries and the head office branch. None of them meets any of the quantitative thresholds for determining reportable segments in 2013 or 2012.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment earnings before interest income/expense, income tax and depreciation and amortisation – EBITDA, as included in the internal management reports that are reviewed by the Management Board.

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

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

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**(i) Information about reportable segments**

As at and for the year ended 31 December 2014:

	<b>Belgorod- energo</b>	<b>Bryansk- energo</b>	<b>Voronezh- energo</b>	<b>Kostroma- energo</b>	<b>Kurskenergo</b>	<b>Lipetsk- energo</b>	<b>Orelenergo</b>	<b>Smolensk- energo</b>	<b>Tambov- energo</b>	<b>Tverenergo</b>	<b>Yarenergo</b>	<b>Others</b>	<b>Total</b>
Revenue from electricity transmission	12,204,685	5,106,101	10,346,290	3,934,141	6,438,951	8,678,176	3,529,061	5,502,236	4,427,750	8,389,922	7,306,497	-	<b>75,863,810</b>
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	40,564	995,265	<b>1,035,829</b>
Revenue from connection services	159,611	19,343	285,777	59,930	181,724	77,260	24,882	72,114	31,483	481,640	101,501	150,783	<b>1,646,048</b>
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	277	-	<b>277</b>
Revenue from the resale of electricity and capacity	-	2,402,744	-	-	1,085,336	-	199,646	2,443,200	-	2,169,181	-	-	<b>8,300,107</b>
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue	251,544	37,952	108,624	33,496	45,655	36,427	50,382	300,382	30,225	65,882	43,774	140,821	<b>1,145,164</b>
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	806	14,109	<b>14,915</b>
<b>Total revenues</b>	<b>12,615,840</b>	<b>7,566,140</b>	<b>10,740,691</b>	<b>4,027,567</b>	<b>7,751,666</b>	<b>8,791,863</b>	<b>3,803,971</b>	<b>8,317,932</b>	<b>4,489,458</b>	<b>11,106,625</b>	<b>7,493,419</b>	<b>1,300,978</b>	<b>88,006,150</b>
<b>Results from operating activities *</b>	<b>1,235,767</b>	<b>173,435</b>	<b>1,487,681</b>	<b>513,118</b>	<b>204,457</b>	<b>1,416,784</b>	<b>281,065</b>	<b>476,177</b>	<b>399,447</b>	<b>280,021</b>	<b>790,871</b>	<b>213,131</b>	<b>7,471,954</b>
Finance income	18,962	13,317	16,404	5,440	3,070	9,566	3,434	7,235	5,746	8,909	14,572	5,914	<b>112,569</b>
Finance costs	(446,047)	(120,487)	(124,467)	(121,706)	(141,438)	(198,971)	(129,173)	(285,254)	(253,057)	(420,627)	(260,373)	(26,491)	<b>(2,528,091)</b>
<b>Reportable segment profit/(loss) before income tax</b>	<b>808,682</b>	<b>66,265</b>	<b>1,379,618</b>	<b>396,852</b>	<b>66,089</b>	<b>1,227,379</b>	<b>155,326</b>	<b>198,158</b>	<b>152,136</b>	<b>(131,697)</b>	<b>545,070</b>	<b>192,554</b>	<b>5,056,432</b>
Depreciation and amortisation	2,379,470	406,900	783,229	463,967	688,261	980,669	332,551	745,726	347,287	577,225	669,703	152,113	<b>8,527,101</b>
EBITDA	3,615,237	580,335	2,270,910	977,085	892,718	2,397,453	613,616	1,221,903	746,734	857,246	1,460,574	365,244	<b>15,999,055</b>
<b>Reportable segment assets</b>	<b>24,046,307</b>	<b>6,487,241</b>	<b>11,654,200</b>	<b>5,571,269</b>	<b>8,052,605</b>	<b>15,605,393</b>	<b>3,873,774</b>	<b>7,461,880</b>	<b>4,807,245</b>	<b>11,774,838</b>	<b>9,378,979</b>	<b>5,150,768</b>	<b>113,864,499</b>
Property, plant and equipment	21,654,953	4,422,038	10,130,359	4,968,252	6,794,083	13,413,666	3,274,458	5,995,960	3,940,803	7,216,175	7,341,990	2,015,541	<b>91,168,278</b>
<b>Reportable segment liabilities</b>	<b>2,887,735</b>	<b>532,660</b>	<b>1,602,265</b>	<b>635,450</b>	<b>996,833</b>	<b>1,304,414</b>	<b>548,178</b>	<b>1,110,442</b>	<b>633,441</b>	<b>3,118,306</b>	<b>1,259,725</b>	<b>41,568,123</b>	<b>56,197,572</b>
Capital expenditure	2,456,658	515,098	1,399,971	681,720	905,219	1,812,887	605,753	1,086,722	521,280	1,118,648	1,071,982	205,298	<b>12,381,236</b>

\* Results from operating activities include other income and expense of reportable segment

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As at and for the year ended 31 December 2013:

	<b>Belgorod- energo</b>	<b>Bryansk- energo</b>	<b>Voronezh- energo</b>	<b>Kostroma- energo</b>	<b>Kurskenergo</b>	<b>Lipetsk- energo</b>	<b>Orelenergo</b>	<b>Smolensk- energo</b>	<b>Tambov- energo</b>	<b>Tverenergo</b>	<b>Yarenergo</b>	<b>Others</b>	<b>Total</b>
Revenue from electricity transmission	13,389,360	5,829,272	9,329,839	3,716,841	6,288,623	8,379,661	3,510,367	5,247,509	3,925,373	8,128,121	7,436,545	-	<b>75,181,511</b>
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	882,316	<b>882,316</b>
Revenue from connection services	102,344	83,233	121,357	42,050	60,403	73,616	24,478	145,053	28,397	61,660	170,188	150,381	<b>1,063,160</b>
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	10,411	-	<b>10,411</b>
Revenue from the resale of electricity and capacity	-	4,533,096	-	-	3,675,634	-	1,892,605	1,481,542	-	4,401,810	-	-	<b>15,984,687</b>
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue	225,737	39,334	85,131	29,473	32,956	42,376	20,501	294,699	24,787	25,228	37,819	105,978	<b>964,019</b>
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	69	254,077	<b>254,146</b>
<b>Total revenues</b>	<b>13,717,441</b>	<b>10,484,935</b>	<b>9,536,327</b>	<b>3,788,364</b>	<b>10,057,616</b>	<b>8,495,653</b>	<b>5,447,951</b>	<b>7,168,803</b>	<b>3,978,557</b>	<b>12,616,819</b>	<b>7,655,032</b>	<b>1,392,752</b>	<b>94,340,250</b>
<b>Results from operating activities *</b>	<b>3,009,204</b>	<b>61,387</b>	<b>(32,515)</b>	<b>525,502</b>	<b>672,968</b>	<b>2,771,032</b>	<b>543,952</b>	<b>(645,894)</b>	<b>(69,757)</b>	<b>(2,977,505)</b>	<b>74,458</b>	<b>(84,122)</b>	<b>3,848,710</b>
Finance income	20,985	14,147	15,983	7,638	313	17,254	1,019	6,232	5,030	4,121	15,447	1,932	<b>110,101</b>
Finance costs	(478,777)	(69,758)	(53,395)	(104,751)	(134,533)	(185,788)	(129,798)	(208,134)	(222,883)	(281,462)	(242,299)	(39,670)	<b>(2,151,248)</b>
<b>Reportable segment profit/(loss) before income tax</b>	<b>2,551,412</b>	<b>5,776</b>	<b>(69,927)</b>	<b>428,389</b>	<b>538,748</b>	<b>2,602,498</b>	<b>415,173</b>	<b>(847,796)</b>	<b>(287,610)</b>	<b>(3,254,846)</b>	<b>(152,394)</b>	<b>(121,860)</b>	<b>1,807,563</b>
Depreciation and amortisation	2,242,916	359,136	696,078	428,007	640,577	858,956	279,515	644,164	314,760	498,124	596,205	138,170	<b>7,696,608</b>
EBITDA	5,252,120	420,523	663,563	953,509	1,313,545	3,629,988	823,467	(1,730)	245,003	(2,479,381)	670,663	54,048	<b>11,545,318</b>
<b>Reportable segment assets</b>	<b>23,490,650</b>	<b>6,235,170</b>	<b>10,166,994</b>	<b>5,340,945</b>	<b>8,075,676</b>	<b>14,363,746</b>	<b>3,626,848</b>	<b>6,769,693</b>	<b>4,467,368</b>	<b>10,187,361</b>	<b>8,618,981</b>	<b>6,004,550</b>	<b>107,347,982</b>
Property, plant and equipment	21,553,163	4,325,643	9,534,278	4,750,248	6,560,293	12,585,415	2,981,048	5,645,603	3,764,463	6,571,882	6,961,355	1,915,810	<b>87,149,201</b>
<b>Reportable segment liabilities</b>	<b>2,747,322</b>	<b>842,349</b>	<b>1,716,731</b>	<b>795,769</b>	<b>1,174,199</b>	<b>1,264,617</b>	<b>543,841</b>	<b>1,049,910</b>	<b>540,450</b>	<b>3,011,582</b>	<b>1,279,640</b>	<b>38,100,227</b>	<b>53,066,637</b>
Capital expenditure	4,175,605	464,412	1,399,863	895,378	948,858	1,767,944	572,169	1,141,034	497,907	1,355,717	1,206,197	247,374	<b>14,672,458</b>

\* Results from operating activities include other income and expense of reportable segment

**(ii) Major customer**

In 2014 revenue from one customer of the Group’s segment (Belgorodenergo) represented approximately 10% (RUB 8,581,739 thousand) of the Group’s total revenue (in 2013 - RUB 10,687,362 thousand or 11% of the Group’s total revenue).

**(iii) Reconciliations of reportable segment revenues, profit or loss and assets and liabilities**

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

<b>Revenues</b>	<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2013</b>
Total revenue for reportable segments	88,006,150	94,340,250
Elimination of inter-segment revenue	(1,051,021)	(1,146,873)
Reclassification	36,493	103,161
<b>Consolidated revenue</b>	<b>86,991,622</b>	<b>93,296,538</b>
	<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2013</b>
EBITDA for the reportable segments	15,999,055	11,545,318
Loss on impairment of property, plant and equipment	(9,056,722)	-
Adjustments for of property, plant and equipment	(125,416)	(47,547)
Recognition of assets related to employee benefit fund	30,016	11,654
Recognition of employee benefit obligations	78,856	103,956
Adjustment for finance lease	429,014	732,535
Adjustment for allowance for impairment of account receivables	20,564	(3,495)
Provision for inventory obsolescence	756	(2,251)
Amortisation of intangible assets	287,973	290,500
Adjustment for litigation provision	-	(1,357,262)
Other adjustments	159,224	32,471
<b>Consolidated earnings before interest, tax and depreciation and amortisation (EBITDA)</b>	<b>7,823,320</b>	<b>11,305,879</b>
Depreciation and amortization	(8,572,361)	(7,929,579)
Interest expenses	(2,512,823)	(2,127,977)
Interest on finance lease liabilities	(72,463)	(149,170)
Interest expense on employee benefit obligations	(188,253)	(158,861)
Interest income	124,242	108,291
Income tax expense	113,817	(782,336)
<b>(Loss) / profit for the year per Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>	<b>(3,284,521)</b>	<b>266,247</b>

**JSC "IDGC of Centre"****Notes to the Consolidated Financial Statements for the year ended 31 December 2014**

Thousands of Russian Roubles, unless otherwise stated

<b>Assets</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
Total assets for reportable segments	113,864,499	107,347,982
Loss on impairment of property, plant and equipment	(9,056,722)	-
Elimination of cost of investments in subsidiaries	(1,117,395)	(1,117,395)
Elimination of other inter-segment assets	(418,391)	(504,930)
Adjustments for net book value of property, plant and equipment	(9,023,891)	(8,999,124)
Recognition of assets related to employee benefit fund	385,019	355,003
Adjustment for allowance for impairment of account receivables	29,880	9,316
Provision for inventory obsolescence	(1,495)	(2,251)
Adjustment for deferred tax	(1,022,384)	(1,020,469)
Other adjustments	154,874	(21,508)
<b>Consolidated total assets</b>	<b>93,793,994</b>	<b>96,046,624</b>

<b>Liabilities</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
Total liabilities for reportable segments	56,197,572	53,066,637
Elimination of inter-segment liabilities	(417,168)	(503,111)
Adjustment for finance lease	83,988	577,357
Recognition of employee benefit obligations	2,051,491	2,527,351
Adjustment for deferred tax	(2,999,413)	(1,348,340)
Other adjustments	(54,138)	(27,249)
<b>Consolidated total liabilities</b>	<b>54,862,332</b>	<b>54,292,645</b>

**7 REVENUE AND OTHER INCOME**

For the year ended 31 December, revenue includes:

	<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2013</b>
Electricity transmission	69,110,930	61,396,222
Revenue from the resale of electricity and capacity	15,052,987	29,769,976
Connection services	1,646,048	1,063,160
Repairs and maintenance	476,209	469,810
Rent	66,953	55,110
Other	638,495	542,260
	<b>86,991,622</b>	<b>93,296,538</b>

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network.

In 2013 pursuant to orders of the Russian Ministry of Energy, "On the transfer of the functions of electricity supplier" the Company started to perform the functions of electricity supplier in Bryansk, Oryol, Kursk, Tver and Smolensk regions. Hence, in addition to performing power transmission services, some divisions of the Company commenced performing power distribution services, including purchasing electricity on the wholesale market and selling it on the retail market, and entering into power purchase agreements with all customers, including householders. The period within which the functions of electricity supplier are to be performed was established prior to the effective date of the decision to provide the tender winner with the electricity supplier status in the abovementioned operating areas, but not more than 12 months. In 2014 following the decision of the Russian Ministry of Energy function of electricity supplier in Bryansk, Orel, Kursk, Tver and Smolensk regions was transferred from the Company to OJSC "AtomEnergoSbyt", LLC "TEK-Energo" and the subsidiary of OJSC "Inter RAO UES". In February 2014 the Company started performing the function of electricity supplier in the area of LLC

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“Tveroblenergosbyt” in Tver region, in December 2014 the electricity supplier status was transferred to JSC “Transservicenergo”.

Revenue from the resale of electricity and capacity includes the part of revenue of RUB 6,752,880 thousand related to transmission of electricity which is sold under power supply contracts (2013: RUB 13,785,289 thousand). Tariff for sale of electricity under power supply contracts is approved taking into account transmission fee.

For the years ended 31 December, other income includes:

	<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2013</b>
Income from gratuitously received property, plant and equipment (including excess inventory)	413,156	365,260
Income in the form of fines and penalties	188,383	204,286
Net income from reversal of allowance for impairment of accounts receivable	179,551	-
Income in the form of the cost of inventories obtained by disposal of property, plant and equipment	115,378	78,584
Income from reimbursement of costs and damages	94,298	123,882
Income from the identified non-contractual electricity consumption	90,127	171,284
Compensation of insurance claims	41,342	61,410
Write-off of accounts payable	26,017	31,242
Net income from reversal of provision for inventory obsolescence	-	70,845
Other	51,140	201,114
	<b>1,199,392</b>	<b>1,307,907</b>

**8 OPERATING EXPENSES**

	<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2013</b>
Electricity transmission	26,530,346	26,297,591
Personnel costs (Note 9)	16,665,883	15,364,896
Purchased electricity to compensate for losses	10,056,845	9,956,120
Loss on impairment of property, plant and equipment	9,056,722	-
Depreciation and amortisation	8,572,361	7,929,579
Electricity for resale	7,540,440	14,479,850
Raw materials and supplies	2,600,372	2,482,179
Losses of previous years	1,430,683	350,748
Taxes other than income tax	882,910	667,237
Rent	524,064	689,775
Repairs, maintenance and installation services	512,312	580,390
Electricity for own needs	380,473	358,207
Provisions	378,272	26,693
Security	307,732	305,418
Information services	271,969	261,664
Consulting, legal and audit services	162,532	129,635
Insurance	124,945	131,508
Telecommunication services	44,847	52,182
Bad debt written-off	34,951	3,759
Membership fee	8,410	6,060
Transportation costs	5,921	14,807
Allowance for impairment of accounts receivable	-	8,580,958
Other	2,847,065	2,558,889
	<b>88,940,055</b>	<b>91,228,145</b>



**JSC "IDGC of Centre"****Notes to the Consolidated Financial Statements for the year ended 31 December 2014***Thousands of Russian Roubles, unless otherwise stated*

Out of total amount of allowance for impairment of accounts receivable recognized in 2013 RUB 6,197,787 thousand relate to impairment of trade receivables from regional distribution entities which lost status of electricity supplier resulted in cease of their operating activity and insolvency. The remainder of the impairment loss mainly relates to disagreements with other regional distribution entities.

Out of total amount of undistributed loss of previous years for 2014 the net amount of RUB 1,322,492 thousand relates to recalculation of revenue for previous periods in connection with settlement of disputes and on the basis of arbitral awards. The amount of decrease in the allowance due to the recovery of amounts written off for 2014 amounted to RUB 2,183,129 thousand, including RUB 1,601,188 thousand as a result of revenue adjustments for prior periods. Disclosure of movements in the allowance for impairment of accounts receivable is provided in Note 28.

**9 PERSONNEL COSTS**

	<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2013</b>
Salaries and wages	11,035,870	10,301,001
Contribution to the state pension fund	2,610,454	2,298,473
Compulsory social security contributions	941,900	685,660
Unused vacation provision	790,065	1,164,790
Finance aid	574,821	144,997
Annual bonus provision	148,988	178,655
Current service cost (Note 24)	107,212	88,716
Past service cost (Note 24)	24,002	(59)
Remeasurements of other long term benefits (Note 24)	(34)	237
Other personnel costs	432,605	502,426
	<b>16,665,883</b>	<b>15,364,896</b>

The average number of employees (including production and non production staff) was 30,337 for the year ended 31 December 2014 (for the year ended 31 December 2013: 31,963 employees).

**10 FINANCE INCOME AND COSTS**

	<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2013</b>
<b>Finance income</b>		
Interest income	99,186	89,181
Dividends	25,056	19,110
	<b>124,242</b>	<b>108,291</b>
<b>Finance costs</b>		
Interest expense	2,512,823	2,127,977
Interest on finance lease liabilities	72,463	149,170
Interest expense on employee benefits obligation (Note 24 b)	188,253	158,861
	<b>2,773,539</b>	<b>2,436,008</b>

## 11 INCOME TAX EXPENSE

The Group’s applicable tax rate is the income tax rate of 20%. For the years ended 31 December income tax benefit / (expense) is as follows:

	<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2013</b>
<b>Current tax expense</b>		
Current year	(1,022,131)	(729,755)
Adjustment for prior years	81,889	692,753
	<b>(940,242)</b>	<b>(37,002)</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	1,056,727	44 745
Change in tax base of property, plant and equipment	(2,668)	(790,079)
	<b>1,054,059</b>	<b>(745,334)</b>
	<b>113,817</b>	<b>(782,336)</b>

In 2013 the Group recalculated income tax for prior periods (2011-2012) related to the deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment and accelerated depreciation of property, plant and equipment operated in an aggressive environment.

As a result, income tax overprovided in prior periods, in accordance with the adjusted tax declarations submitted to the tax authorities, amounted to RUB 692,753 thousand. Also the Group corrected the tax value of property, plant and equipment which resulted in an increase of deferred tax liabilities of the Group in the amount of RUB 790,079 thousand.

### Income tax recognised in other comprehensive income

	<b>Year ended 31 December 2014</b>			<b>Year ended 31 December 2013</b>		
	<b>Before tax</b>	<b>Tax</b>	<b>Net of tax</b>	<b>Before tax</b>	<b>Tax</b>	<b>Net of tax</b>
Remeasurements of available-for-sale financial assets	(11,533)	2,307	<b>(9,226)</b>	(22,657)	4,531	<b>(18,126)</b>
Reserve for remeasurements of defined benefit plans	585,257	(43,617)	<b>541,640</b>	(323,623)	50,878	<b>(272,745)</b>
	<b>573,724</b>	<b>(41,310)</b>	<b>532,414</b>	<b>(346, 280)</b>	<b>55,409</b>	<b>(290,871)</b>

*Reconciliation of profit before income tax is as follows:*

	<b>Year ended 31 December 2014</b>		<b>Year ended 31 December 2013</b>	
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
(Loss) / profit before income tax	(3,398,338)	100	1,048,583	100
Income tax expense at applicable tax rate	679,668	(20)	(209,717)	(20)
Adjustment for prior periods	81,889	(2)	692,753	66
Change in the tax base of property, plant and equipment	(2,668)	-	(790,079)	(75)
Net effect of other items which are not deductible/not taxable for taxation purposes	(645,072)	19	(475,293)	(45)
	<b>113,817</b>	<b>(3)</b>	<b>(782,336)</b>	<b>(74)</b>

## 12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transmission networks	Equipment for electricity transformation	Other	Construction in progress	Total
<i>Deemed cost</i>						
Balance at 1 January 2013	19,913,660	38,405,697	21,902,107	12,497,684	6,529,229	99,248,377
Additions	135,476	149,698	71,659	545,107	14,271,983	15,173,923
Transfers	4,466,537	5,990,143	3,376,197	1,782,145	(15,615,022)	-
Disposals	(6,389)	(37,569)	(96,825)	(126,141)	(828,184)	(1,095,108)
<b>Balance at 31 December 2013</b>	<b>24,509,284</b>	<b>44,507,969</b>	<b>25,253,138</b>	<b>14,698,795</b>	<b>4,358,006</b>	<b>113,327,192</b>
Balance at 1 January 2014	24,509,284	44,507,969	25,253,138	14,698,795	4,358,006	113,327,192
Additions	60,265	268,223	83,550	5,056	12,359,461	12,776,555
Transfers	2,966,112	5,855,822	2,930,882	1,295,304	(13,048,120)	-
Disposals	(5,129)	(50,631)	(237,311)	(333,399)	(90,137)	(716,607)
<b>Balance at 31 December 2014</b>	<b>27,530,532</b>	<b>50,581,383</b>	<b>28,030,259</b>	<b>15,665,756</b>	<b>3,579,210</b>	<b>125,387,140</b>
<i>Accumulated depreciation and impairment</i>						
Balance at 1 January 2013	(3,889,748)	(13,709,273)	(5,376,048)	(4,807,786)	-	(27,782,855)
Depreciation for the period	(1,395,085)	(2,761,084)	(1,502,269)	(1,974,851)	-	(7,633,289)
Disposals	4,381	27,079	34,748	96,486	-	162,694
<b>Balance at 31 December 2013</b>	<b>(5,280,452)</b>	<b>(16,443,278)</b>	<b>(6,843,569)</b>	<b>(6,686,151)</b>	<b>-</b>	<b>(35,253,450)</b>
Balance at 1 January 2014	(5,280,452)	(16,443,278)	(6,843,569)	(6,686,151)	-	(35,253,450)
Depreciation for the period	(1,501,068)	(3,168,470)	(1,650,120)	(1,956,164)	-	(8,275,822)
Disposals	2,190	28,318	87,148	167,640	-	285,296
Impairment	(1,804,219)	(4,080,386)	(1,969,657)	(626,627)	(575,833)	(9,056,722)
<b>Balance at 31 December 2014</b>	<b>(8,583,549)</b>	<b>(23,663,816)</b>	<b>(10,376,198)</b>	<b>(9,101,302)</b>	<b>(575,833)</b>	<b>(52,300,698)</b>
<i>Net book value</i>						
<b>At 1 January 2013</b>	<b>16,023,912</b>	<b>24,696,424</b>	<b>16,526,059</b>	<b>7,689,898</b>	<b>6,529,229</b>	<b>71,465,522</b>
<b>At 31 December 2013</b>	<b>19,228,832</b>	<b>28,064,691</b>	<b>18,409,569</b>	<b>8,012,644</b>	<b>4,358,006</b>	<b>78,073,742</b>
<b>At 31 December 2014</b>	<b>18,946,983</b>	<b>26,917,567</b>	<b>17,654,061</b>	<b>6,564,454</b>	<b>3,003,377</b>	<b>73,086,442</b>

As at 31 December 2014 construction in progress includes prepayments for property, plant and equipment of RUB 10,090 thousand (as at 31 December 2013: RUB 16,075 thousand) and inventories for the construction of property, plant and equipment of RUB 177,948 thousand (as at 31 December 2013: RUB 88,233 thousand).

Borrowing costs totalling RUB 225,974 thousand with a capitalisation rate of 7.25-11.4% during 2014 (2013: RUB 256,750 thousand with a capitalization rate of 7.25-13.5%) were included in the cost of property, plant and equipment and represent interest on loans.

### **Leased property, plant and equipment**

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. Title to the leased assets transfers to the Group at the end of each lease.

As at 31 December 2014 and 31 December 2013 the net book value of leased property, plant and equipment, accounted for as part of the Group’s property, plant and equipment, was as follows:

	<b>Equipment for electricity transformation</b>	<b>Other</b>	<b>Total</b>
Cost	1,263,960	855,317	2,119,277
Accumulated depreciation	(349,387)	(142,259)	(491,646)
<b>Net book value at 31 December 2013</b>	<b>914,573</b>	<b>713,058</b>	<b>1,627,631</b>
Cost	8,188	552,062	560,250
Accumulated depreciation	(2,877)	(130,748)	(133,625)
<b>Net book value at 31 December 2014</b>	<b>5,311</b>	<b>421,314</b>	<b>426,625</b>

### **Impairment of property, plant and equipment**

Due to the negative impact of macroeconomic factors on Russian economy the Group performed a test for impairment of property, plant and equipment as at 31 December 2014.

As a result of the impairment test as at 31 December 2014 loss on impairment of property, plant and equipment was recognized in the amount of RUB 9,056,722 thousand, including RUB 1,242,721 thousand for “Kurskenergo”, RUB 7,682,624 thousand for “Lipetskenergo”, RUB 131,377 thousand for “Yarenergo” with OJSC “Yargorelectroset”.

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

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

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

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

- forecast cash flows were prepared for the period 2015-2019 (for all the CGUs except “Kurskenergo”), 2015-2022 (for “Kurskenergo”), and were based on the estimate of the Group’s Management in respect of the transmission volumes, operating and capital expenditures and tariffs approved by regulatory bodies for 2015;
- distribution tariffs for forecasted period were estimated using business plans of the branches which were based on the tariff models formed for 2015 in accordance with the regulatory approval rates for 2016-2017, in accordance with “The socio-economic development of the Russian Federation for 2015 and the planning period of 2016-2017”. Tariffs growth rates in 2017-2022 are restricted by inflation rates according to Ministry of Economic Development of the Russian Federation (till 2030);
- forecasted transmission volumes for “Belgorodenergo”, “Bryanskenergo”, “Voronezhenergo”, “Kostromaenergo”, “Lipetskenergo”, “Orelenergo”, “Smolenskenergo”, “Tambovenergo”, “Tverenergo”, “Yarenergo” with OJSC “Yargorelectroset” were determined based on the Company’s business plan for 2015-2019;
- forecasted transmission volumes for “Kurskenergo” were determined based on the Company’s business plan for 2015-2019. Starting from 2020 the production level according to the estimate of the Company’s management was predicted excluding annual growth at the level of 2019;
- forecasted volume of investment program financing for 2015-2019 amounts to RUB 81.2 billion including VAT;

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- the cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 11.16% (discount rate before tax) (2013: 11,32%);
- growth rate of the net cash flows amounted to 2.6% in the post-forecasted period for all the CGUs except “Kurskenergo”. Growth rate of the net cash flows in the post-forecasted period for “Kurskenergo” amounted to 2.4%.

Quantitative information on significant unobservable inputs used in assessing value in use, are disclosed below:

	2015	2016	2017	2018	2019
Growth rate of necessary gross revenue to the previous year	0.3%	4.5%	1.6%	2.3%	4.9%
Productive supply (“boiler”), million KWh	54,397	55,158	50,984	46,841	47,119
Inflation forecast of the MED	5.5%	4.5%	4.0%	4.5%	4.0%
The level of capital investment, millions of Russian Roubles	3,050	6,049	6,939	8,465	8,600

Sensitivity analysis for key assumptions is presented below:

- increase of discount rate by 1% increases impairment loss by RUB 890,434 thousand;
- reduction of necessary gross revenue to the base value in each period by 3% increases impairment loss by RUB 4,898,877 thousand;
- increase of operating expenses level to the base value in each period by 5% increases impairment loss by RUB 6,351,437 thousand;
- increase of capital investment level in the forecasted and post-forecasted period by 10% increases impairment loss by RUB 729,453 thousand.

## 13 INTANGIBLE ASSETS

	Software	Research and development	Other intangible assets	Total
<i>Cost</i>				
Balance at 1 January 2013	362,473	53,846	1,341,366	1,757,685
Additions	138,988	47,760	32,402	219,150
Transfers	-	(24,576)	24,576	-
Disposals	(120,480)	-	(431,639)	(552,119)
<b>Balance at 31 December 2013</b>	<b>380,981</b>	<b>77,030</b>	<b>966,705</b>	<b>1,424,716</b>
Balance at 1 January 2014	380,981	77,030	966,705	1,424,716
Additions	174,136	31,673	86,735	292,544
Transfers	-	(68,547)	68,547	-
Disposals	(140,621)	(20,836)	(462,081)	(623,538)
<b>Balance at 31 December 2014</b>	<b>414,496</b>	<b>19,320</b>	<b>659,906</b>	<b>1,093,722</b>
<i>Accumulated amortisation</i>				
Balance at 1 January 2013	(186,842)	-	(874,001)	(1,060,843)
Amortisation for the period	(98,392)	-	(197,898)	(296,290)
Disposals	120,480	-	427,858	548,338
<b>Balance at 31 December 2013</b>	<b>(164,754)</b>	<b>-</b>	<b>(644,041)</b>	<b>(808,795)</b>
Balance at 1 January 2014	(164,754)	-	(644,041)	(808,795)
Amortisation for the period	(146,100)	-	(150,439)	(296,539)
Disposals	140,606	-	462,004	602,610
<b>Balance at 31 December 2014</b>	<b>(170,248)</b>	<b>-</b>	<b>(332,476)</b>	<b>(502,724)</b>
<i>Net book value</i>				
<b>At 1 January 2013</b>	<b>175,631</b>	<b>53,846</b>	<b>467,365</b>	<b>696,842</b>
<b>At 31 December 2013</b>	<b>216,227</b>	<b>77,030</b>	<b>322,664</b>	<b>615,921</b>
<b>At 31 December 2014</b>	<b>244,248</b>	<b>19,320</b>	<b>327,430</b>	<b>590,998</b>

**14 DEFERRED TAX ASSETS AND LIABILITIES**

**(a) Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following items:

	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	11,288	11,288	(5,232,829)	(6,594,834)	(5,221,541)	(6,583,546)
Investments and financial assets	-	-	(77,004)	(71,001)	(77,004)	(71,001)
Inventories	1,340	978	-	-	1,340	978
Trade and other receivables	604,998	864,367	-	-	604,998	864,367
Finance lease liabilities	16,798	115,471	-	-	16,798	115,471
Loans and borrowings	-	-	(758)	(1,644)	(758)	(1,644)
Post-employment benefit liability	210,119	248,057	-	-	210,119	248,057
Provision for employee payables	116,578	151,970	-	-	116,578	151,970
Trade and other payables	329,034	247,172	-	-	329,034	247,172
Other	439	-	-	(4,570)	439	(4,570)
<b>Deferred tax assets/(liabilities)</b>	<b>1,290,594</b>	<b>1,639,303</b>	<b>(5,310,591)</b>	<b>(6,672,049)</b>	<b>(4,019,997)</b>	<b>(5,032,746)</b>

**(b) Movements in temporary differences during the period**

	1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2014
Property, plant and equipment	(6,583,546)	1,362,005	-	(5,221,541)
Other non-current assets	-	-	-	-
Investments and financial assets	(71,001)	(8,310)	2,307	(77,004)
Inventories	978	362	-	1,340
Trade and other receivables	864,367	(259,369)	-	604,998
Finance lease liabilities	115,471	(98,673)	-	16,798
Loans and borrowings	(1,644)	886	-	(758)
Post-employment benefit liability	248,057	5,679	(43,617)	210,119
Provision for employee payables	151,970	(35,392)	-	116,578
Trade and other payables	247,172	81,862	-	329,034
Other	(4 570)	5,009	-	439
	<b>(5,032,746)</b>	<b>1,054,059</b>	<b>(41,310)</b>	<b>(4,019,997)</b>

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	<b>1 January 2013</b>	<b>Recognised in profit or loss</b>	<b>Recognised in other comprehensive income</b>	<b>31 December 2013</b>
Property, plant and equipment	(4,954,755)	(1,628,791)	-	(6,583,546)
Investments and financial assets	(68,247)	(7,285)	4,531	(71,001)
Inventories	15,147	(14,169)	-	978
Trade and other receivables	11,024	853,343	-	864,367
Finance lease liabilities	105,974	9,497	-	115,471
Loans and borrowings	(2,353)	709	-	(1,644)
Post-employment benefit liability	196,284	895	50,878	248,057
Provision for employee payables	138,137	13,833	-	151,970
Trade and other payables	213,392	33,780	-	247,172
Other	2,576	(7,146)	-	(4,570)
	<b>(4,342,821)</b>	<b>(745,334)</b>	<b>55,409</b>	<b>(5,032,746)</b>

**15 INVESTMENTS AND FINANCIAL ASSETS**

	<b>31 December 2014</b>	<b>31 December 2013</b>
Assets related to the employee benefit fund	385,019	355,003
Available-for-sale financial assets	165,620	175,885
	<b>550,639</b>	<b>530,888</b>

Financial assets related to the employee benefit fund relate to the Group’s contributions accumulated in the solidary and employees’ individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). These assets are not assets of the plan, because under the terms of existing agreements with the Fund the Group is able to use the above contributions to reduce future contributions, or for compensation though the funding of other plans, or transfer to another fund on its own initiative (recoverable amount is 80%).

Available-for-sale financial assets represent investments in shares of JSC E.ON Russia and other securities, which are listed on CJSC “MICEX Stock Exchange”, recorded at fair market value (belong to Level 1 in the fair value hierarchy). In 2014 the Group recognized impairment losses on available-for-sale financial assets in the amount of RUB 11,533 thousand as a component of other comprehensive income (2013: RUB 22,657 thousand).

The Group’s exposure related to credit risks and impairment losses related to financial assets is disclosed in Note 28.

**16 OTHER NON-CURRENT ASSETS**

	<b>31 December 2014</b>	<b>31 December 2013</b>
Trade accounts receivable	36,944	64,557
Non-current prepayments	7,319	5,303
Other accounts receivable	6,229	11,981
Other accounts receivable impairment allowance	(382)	(502)
Other assets	36,684	36,684
	<b>86,794</b>	<b>118,023</b>



**17 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents represent cash in bank accounts amounted to RUB 395,836 thousand (31 December 2013: RUB 1,114,942 thousand).

**18 TRADE AND OTHER RECEIVABLES**

	<u>31 December 2014</u>	<u>31 December 2013</u>
Trade receivables	24,358,108	21,719,150
Trade receivables impairment allowance	(10,323,204)	(10,558,784)
Other receivables	1,357,777	818,275
Other receivables impairment allowance	(181,567)	(198,834)
<b>Total financial assets</b>	<b><u>15,211,114</u></b>	<b><u>11,779,807</u></b>
Prepayments	445,028	240,255
Prepayments impairment allowance	(1,383)	(35,764)
VAT recoverable	416,952	410,785
Prepaid taxes other than income tax	199,922	235,269
	<b><u>16,271,633</u></b>	<b><u>12,630,352</u></b>

For more detailed information concerning the Group's exposure to credit risks and impairment losses related to trade and other receivables refer to Note 28.

**19 INVENTORIES**

	<u>31 December 2014</u>	<u>31 December 2013</u>
Materials and supplies	1,810,693	2,051,203
Other inventories	4,547	4,325
<b>Total inventories</b>	<b><u>1,815,240</u></b>	<b><u>2,055,528</u></b>
Less: provision for inventory obsolescence	(6,701)	(4,891)
<b>Total</b>	<b><u>1,808,539</u></b>	<b><u>2,050,637</u></b>

**20 EQUITY**

**(a) Share capital**

	<b>Ordinary shares</b>	
	<u>31 December 2014</u>	<u>31 December 2013</u>
Issued shares, fully paid, number	42,217,941,468	42,217,941,468
Par value (in RUB)	0.10	0.10

**(b) Dividends**

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

At the annual shareholders meeting held on 14 June 2013 the decision was made to distribute the Company’s profit for the year 2012 to dividends in the amount of RUB 862,935 thousand and to pay dividends for the year 2012 in the amount of RUB 0.02044 per ordinary share of the Company in cash.

At the annual shareholders meeting held on 26 June 2014 the decision was made to distribute the Company’s profit for the year 2013 to dividends in the amount of RUB 75,992 thousand and to pay dividends for the year 2013 in the amount of RUB 0.0018 per ordinary share of the Company in cash.

**21 LOSS / EARNINGS PER SHARE**

The calculation of earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period. The Company has no dilutive potential ordinary shares.

	<b>Ordinary shares</b>	<b>Ordinary shares</b>
	<b>31 December 2014</b>	<b>31 December 2013</b>
Authorised (ordinary) shares (number)	42,217,941,468	42,217,941,468
Par value (in RUB)	0.10	0.10
Weighted average number of shares	42,217,941,468	42,217,941,468
<b>(Loss) / profit for the year attributable to shareholders</b>	<b>(3,318,288)</b>	<b>233,680</b>
<b>(Loss) / earning per share (in RUB): basic and diluted</b>	<b>(0.079)</b>	<b>0.006</b>

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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 risk, refer to Note 28.

*Long-term loans and borrowings*

Name of lender		Effective interest rate 31 December 2014	Effective interest rate 31 December 2013	Maturity	Par value		Carrying value	
					31 December 2014	31 December 2013	31 December 2014	31 December 2013
OJSC “Alfa-Bank”	Unsecured	8.25%	8.25%	2017	2,002,712	2,002,712	2,002,712	2,002,712
OJSC “Bank VTB”	Unsecured	8.1175-23%	8.1175-8.75%	2017-2019	11,720,000	8,320,000	11,720,000	8,320,000
OJSC “Rosbank”	Unsecured	7.85%	8.00%	2015	3,800,000	3,800,000	3,800,000	3,800,000
OJSC “Sberbank”	Unsecured	7.524-8.4%	7.524-10.44%	2015-2025	13,152,738	14,853,827	13,152,738	14,853,827
CJSC “Transcapitalbank”	Unsecured	13.50%	13.50%	2015	82,717	76,447	82,717	76,447
Unsecured bond issues	Unsecured	9.044%	9.044%	2015	4,075,520	4,074,560	4,071,729	4,066,338
OJSC «Svernny Morskoy Put»	Unsecured	11.4%	-	2017	2,450,000	-	2,450,000	-
					<b>37,283,687</b>	<b>33,127,546</b>	<b>37,279,896</b>	<b>33,119,324</b>
Less: current portion								
OJSC “Alfa-Bank”	Unsecured	8.25%	8.25%	2017	2,712	2,712	2,712	2,712
OJSC “Rosbank”	Unsecured	7.85%	8.00%	2015	3,800,000	-	3,800,000	-
OJSC “Sberbank”	Unsecured	7.524-8.4%	7.524-10.44%	2015-2025	1,652,738	1,753,827	1,652,738	1,753,827
CJSC “Transcapitalbank”	Unsecured	13.50%	13.50%	2015	82,717	76,447	82,717	76,447
Unsecured bond issues	Unsecured	9.044%	9.044%	2015	4,075,520	74,560	4,071,729	78,650
					<b>9,613,687</b>	<b>1,907,546</b>	<b>9,609,896</b>	<b>1,911,636</b>
<b>Total long-term borrowings</b>					<b>27,670,000</b>	<b>31,220,000</b>	<b>27,670,000</b>	<b>31,207,688</b>

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**Current borrowings and current portion of long-term borrowings**

Name of lender		Effective	Effective	Par value		Carrying value	
		interest rate 31 December 2014	interest rate 31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
OJSC “Alfa-Bank”	Unsecured	8.25%	8.25%	2,712	2,712	2,712	2,712
OJSC “Rosbank”	Unsecured	7.85%	8.00%	3,800,000	-	3,800,000	-
OJSC “Sberbank”	Unsecured	7.524-8.4%	7.524-10.44%	1,652,738	1,753,827	1,652,738	1,753,827
OJSC “SGB”	Unsecured	10.00%	10.00%	40	283	40	283
CJSC “Transcapitalbank”	Unsecured	13.50%	13.50%	82,717	76,447	82,717	76,447
Unsecured bond issues	Unsecured	9.044%	9.044%	4,075,520	74,560	4,071,729	78,650
				<b>9,613,727</b>	<b>1,907,829</b>	<b>9,609,936</b>	<b>1,911,919</b>

All the Group’s borrowings are denominated in RUB and bear a fixed interest rate. The effective interest rate is the market interest rate applicable to the loan on the date of its receipt.

The carrying value of borrowings approximates their fair value.

As at 31 December 2014 and 31 December 2013 no bank loans are secured over bank guarantees received.

## 23 FINANCE LEASE

The finance lease liabilities are secured by the leased assets.

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

	At 31 December 2014		
	Future minimum lease payments	Present value of minimum lease payments	Interest
Less than one year	87,761	82,485	5,276
Between one and five years	1,629	1,503	126
	<b>89,390</b>	<b>83,988</b>	<b>5,402</b>

	At 31 December 2013		
	Future minimum lease payments	Present value of minimum lease payments	Interest
Less than one year	549,091	493,368	55,723
Between one and five years	90,850	83,989	6,861
	<b>639,941</b>	<b>577,357</b>	<b>62,584</b>

## 24 EMPLOYEE BENEFITS

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

### (a) Net liability in Consolidated Statement of Financial Position

	31 December 2014	31 December 2013
Recognised post-employment benefit	2,051,491	2,524,679
Recognised other long term liability	-	2,672
Total recognised liability	<b>2,051,491</b>	<b>2,527,351</b>

### (b) Movements in the defined benefit liability

	Post-employment benefit		Other long-term liability		Total liability	
	2014	2013	2014	2013	2014	2013
Balance at 1 January	2,524,679	2,146,316	2,672	2,506	2,527,351	2,148,822
Included in profit or loss						
Current service cost	107,212	88,601	-	115	107,212	88,716
Past service credit	25,863	(19)	(1,861)	(40)	24,002	(59)
Interest cost	188,113	158,678	140	183	188,253	158,861
Remeasurements of other long term benefits	-	-	(34)	237	(34)	237
	<b>321,188</b>	<b>247,260</b>	<b>(1,755)</b>	<b>495</b>	<b>319,433</b>	<b>247,755</b>

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	Post-employment benefit		Other long-term liability		Total liability	
	2014	2013	2014	2013	2014	2013
Included in OCI						
Remeasurements loss (gain):						
- Actuarial loss (gain) arising from:						
- demographic assumptions	(186,012)	229,662	-	-	(186,012)	229,662
- financial assumptions	(263,716)	(132,896)	-	-	(263,716)	(132,896)
- experience adjustment	(135,529)	226,857	-	-	(135,529)	226,857
	<b>(585,257)</b>	<b>323,623</b>	<b>-</b>	<b>-</b>	<b>(585,257)</b>	<b>323,623</b>
Other						
Benefits paid	(209,119)	(192,520)	(917)	(329)	(210,036)	(192,849)
Balance at 31 December	<b>2,051,491</b>	<b>2,524,679</b>	<b>-</b>	<b>2,672</b>	<b>2,051,491</b>	<b>2,527,351</b>

**(c) Actuarial assumptions**

Principal actuarial assumptions are as follows:

	31 December 2014	31 December 2013
Discount rate, annual	12.00%	8.00%
Future salary increase, per year	7.00%	5.00%
Inflation rate, per year	7.00%	5.00%
Average staff turnover	7.00%	7.00%

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.

	2014	2013
<b>Longevity at age 60 for current pensioners</b>		
Males	19	14
Females	25	20
<b>Longevity at age 60 for current members aged 45</b>		
Males	22	19
Females	27	23

At 31 December 2014, the weighted-average duration of the defined benefit obligation was 6.6 years (2013: 7.4 years).

The amount of expected payments under post-employment defined benefit plans for 2015 is RUB 232,399 thousand.

**(d) Sensitivity analysis**

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

31 December 2014	Impact of movement in actuarial assumptions on Defined benefit obligation	
	Increase	Decrease
<b>Actuarial assumptions</b>		
Discount rate (0.5% movement)	-3.25%	3.25%
Future salary growth (0.5% movement)	0.85%	-0.85%
Future pension growth (0.5% movement)	2.55%	-2.55%
Staff turnover (10% movement)	-0.92%	0.92%
Future mortality (10% movement)	-1.21%	1.21%

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

**25 EMPLOYEE PAYABLES**

	<u>31 December 2014</u>	<u>31 December 2013</u>
Salaries and wages payable	58,956	19,268
Unused vacation provision	384,271	397,007
Annual bonus provision	197,997	296,300
Provision for termination benefits	621	66,543
	<b>641,845</b>	<b>779,118</b>

Provision for annual bonuses includes bonuses and other similar payments accrued (including compulsory social security contributions) based on employees' performance.

**26 TRADE AND OTHER PAYABLES**

Current trade and other payables include:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Trade accounts payable	5,348,193	6,309,673
Other payables and accrued expenses	693,763	773,703
Advances from customers	1,997,485	2,268,022
Accrued provisions	1,162,928	1,187,124
	<b>9,202,369</b>	<b>10,538,522</b>

As a part of accounts payable and accrued expenses there is litigation provision, which includes:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Balance at 1 January	<b>1,187,124</b>	<b>1,363,996</b>
Increase during the year	840,472	430,870
Decrease due to the use of provision	(402,468)	(203,565)
Decrease due to reversal	(462,200)	(404,177)
<b>Balance at 31 December</b>	<b>1,162,928</b>	<b>1,187,124</b>

Non-current trade and other payables include:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Advances from customers	571,740	566,201
Other payables	8,403	11,529
	<u><b>580,143</b></u>	<u><b>577,730</b></u>

Advances from customers are mainly represented by prepayments received from customers under contracts of technical connection to the power grid.

## **27 OTHER TAXES AND CONTRIBUTIONS PAYABLE**

	<u>31 December 2014</u>	<u>31 December 2013</u>
Value added tax	586,325	775,236
Compulsory social security contributions	343,005	325,829
Property tax	41,690	12,452
Other taxes	22,174	17,504
	<u><b>993,194</b></u>	<u><b>1,131,021</b></u>

## **28 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

### **(a) 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 significant exposure to currency risk on sales, purchases and borrowings, because no significant sales, purchases, or borrowings are denominated in a currency other than the functional currency of the Company, which is the Russian Rouble.

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.

The Group’s principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

### **(b) Credit risk**

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

#### **(i) Trade and other receivables**

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

To manage credit risk the Group attempts, to the fullest extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is set in a contract and depends on the amount of capacity to be connected.



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The customer base for electricity transmission services is limited to several distribution companies and a small number of large manufacturing/extraction enterprises. Payments are tracked regularly and electricity transmission customers are advised of any failures to submit timely payments. For quick collection and complete control of accounts receivable collection activities are performed to reduce the Company’s finance losses, caused by non-fulfilment or insufficient fulfilment by some contractors of their contractual obligations.

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 incurred losses in respect of trade and other receivables that relate to individually significant exposures.

**(ii) 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:

	<b>31 December 2014</b>	<b>31 December 2013</b>
Trade and other receivables	15,253,905	11,855,843
Investments and financial assets	165,620	175,885
Cash and cash equivalents	395,836	1,114,942
	<b>15,815,361</b>	<b>13,146,670</b>

The Group’s two most significant customers, regional distribution entities, account for RUB 3,233,035 thousand of the trade receivables carrying amount at 31 December 2014 (31 December 2013: RUB 2,007,145 thousand).

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

	<b>Carrying amount at 31 December 2014</b>	<b>Carrying amount at 31 December 2013</b>
Electricity transmission customers	10,411,303	5,499,763
Consumers of electricity and capacity	3,143,350	5,382,222
Connection services customers	232,297	101,183
Other customers	284,898	241,755
	<b>14,071,848</b>	<b>11,224,923</b>

**Impairment losses**

The tables below analyse the Group’s trade and other receivables into relevant groups based on the past due periods:

	<b>At 31 December 2014</b>		<b>At 31 December 2013</b>	
	<b>Carrying amount</b>	<b>Allowance</b>	<b>Carrying amount</b>	<b>Allowance</b>
Not past due	7,726,324	(12,687)	5,133,616	(59,643)
Past due 0-3 months	2,778,359	(174,349)	3,885,073	(212,519)
Past due 3-6 months	1,342,147	(25,102)	1,311,860	(662,591)
Past due 6-12 months	4,522,617	(1,179,890)	7,455,810	(5,415,359)
Past due more than 12 months	9,389,611	(9,113,125)	4,827,604	(4,408,008)
	<b>25,759,058</b>	<b>(10,505,153)</b>	<b>22,613,963</b>	<b>(10,758,120)</b>

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

	<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2013</b>
Balance at 1 January	<b>10,758,120</b>	<b>2,306,189</b>
Increase during the period	2,001,797	9,025,000
Amounts written-off against receivables	(71,635)	(94,383)
Decrease due to reversal	(2,183,129)	(478,686)
Balance at 31 December	<b>10,505,153</b>	<b>10,758,120</b>

**(c) Liquidity risk**

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

To manage the liquidity risk, the Group has negotiated long-term and short-term credit lines with a pool of banks.

As at 31 December 2014 the Group’s unused portion of long-term and short-term credit line facilities amounted to RUB 10,150,000 thousand (31 December 2013: RUB 8,800,000 thousand).

**JSC “IDGC of Centre”**

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*Thousands of Russian Roubles, unless otherwise stated*

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

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>12 months or less</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 3 years</b>	<b>Between 3 and 4 years</b>	<b>Between 4 and 5 years</b>	<b>More than 5 years</b>
<b>Liabilities as at 31 December 2014</b>								
Short-term and long-term bank loans including current portion	33,208,207	44,562,072	8,713,122	4,330,904	14,543,595	12,213,903	252,000	4,508,548
Unsecured bond issues	4,071,729	4,357,040	4,357,040	-	-	-	-	-
Finance lease liabilities	83,988	89,390	87,761	1,629	-	-	-	-
Trade and other payables	6,037,239	6,037,239	6,028,836	131	131	131	131	7,879
	<b>43,401,163</b>	<b>55,045,741</b>	<b>19,186,759</b>	<b>4,332,664</b>	<b>14,543,726</b>	<b>12,214,034</b>	<b>252,131</b>	<b>4,516,427</b>
<b>Liabilities as at 31 December 2013</b>								
Short-term and long-term bank loans including current portion	29,053,269	39,531,025	4,102,781	7,551,809	3,213,285	7,687,084	12,217,589	4,758,477
Unsecured bond issues	4,066,338	4,714,056	358,000	4,356,056	-	-	-	-
Finance lease liabilities	577,357	639,941	549,091	89,221	1,629	-	-	-
Trade and other payables	7,073,709	7,073,709	7,041,289	23,463	131	131	131	8,564
	<b>40,770,673</b>	<b>51,958,731</b>	<b>12,051,161</b>	<b>12,020,549</b>	<b>3,215,045</b>	<b>7,687,215</b>	<b>12,217,720</b>	<b>4,767,041</b>

**(d) Market risk**

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

**(i) Interest rate risk**

Substantially all the operations of the Group are denominated in Russian Roubles, hence the Group is not exposed to significant currency risk.

The Group’s income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of loans and borrowings. The interest rates on most long- and short-term loans and borrowings are fixed. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt).

Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

*Profile*

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

	<b>Carrying amount</b>	<b>Carrying amount</b>
<b>Fixed rate instruments</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
Loans and borrowings, finance lease liability	37,363,924	33,696,964

*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.

**(e) Accounting classifications and fair values**

The fair values of the Group’s financial assets and liabilities approximate their carrying amounts as at 31 December 2014.

The Group measures at fair value available-for-sale financial assets represented by equity securities (see Note 15).

**(f) 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 result from operating activities 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 period.

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 charter capital at all times.

As at the end of the reporting year the debt-to-equity ratio for the Group was as follows:

	Carrying value	
	31 December 2014	31 December 2013
Aggregate liabilities	54,862,332	54,292,645
Less: cash and cash equivalents	(395,836)	(1,114,942)
<b>Net debt</b>	<b>54,466,496</b>	<b>53,177,703</b>
Shareholders' equity	38,931,662	41,753,979
<b>Gearing ratio</b>	<b>140%</b>	<b>127%</b>

## 29 OPERATING LEASES

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 1 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.

Operating lease rentals under non-cancellable leases are payable as follows:

	31 December 2014	31 December 2013
Less than one year	529,490	512,385
Between one year and five years	925,366	865,855
More than five years	4,266,724	3,787,723
	<b>5,721,580</b>	<b>5,165,963</b>

The amount of lease expense under operating leases recognised in profit or loss for the year ended 31 December 2014 was RUB 524,064 thousand (for the year ended 31 December 2013: RUB 689,775 thousand).

## 30 COMMITMENTS

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 4,590,346 thousand as at 31 December 2014 (as at 31 December 2013: RUB 4,426,215 thousand).

## 31 CONTINGENCIES

### (a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has reliable insurance coverage for its property: industrial buildings, structures and premises, air and cable transmission lines, energy (power) machines and others. In addition, insurance covers risks that could lead to losses in the event of damage to third parties (health, property) arising from operation of dangerous production units. The Group has no insurance coverage against losses caused by business interruption.

**(b) Litigation**

The Group is a party to certain legal proceedings arising in the ordinary course of business. Management does not believe that these matters will have a material adverse effect on the Group's financial position and operating results. Changes in litigation provisions are presented in Note 26.

**(c) 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 position in their interpretation and enforcement of tax legislation.

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

**(d) Environmental matters**

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

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

**(e) Other contingencies**

The Group believes that the electricity services provided are in compliance with the Russian legislation regulating electric power transmission. However, based on the lack of elaboration of legislation that regulates the lease of Unified National (All-Russia) Electricity Network property ("last-mile"), as at 31 December 2012 the Company was a party in litigation relating to a claim submitted to the court by OJSC Novolipetsk Steel complex regarding the legitimacy of the revenue recognition from the transmission of electricity via "last-mile" grids in the period from July 2008 to September 2011 in the amount of RUB 5,122,123 thousand.

On 04 July 2013 the Federal Arbitration Court of Moscow District issued the final resolution in favour of the Company.

**(f) Guarantees**

As at 31 December 2014 the Group has no issued financial guarantees for loans.

**32 RELATED PARTY TRANSACTIONS**

**(a) Control relationships**

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.

**(b) Transactions with parent company and entities under control of parent company**

	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2014	2013	2014	2013
<b>Sale of goods and services:</b>	<b>36,065</b>	<b>132,938</b>	<b>42,368</b>	<b>25,255</b>
Parent company	22,108	-	25,169	-
Fellow subsidiaries	13,957	132,938	17,199	25,255
<b>Purchase of goods and services:</b>	<b>15,795,380</b>	<b>8,064,903</b>	<b>2,511,357</b>	<b>1,198,280</b>
Parent company	371,975	342,398	20,201	20,201
Fellow subsidiaries	15,423,405	7,722,505	2,491,156	1,178,079
<b>Advances given:</b>	<b>-</b>	<b>-</b>	<b>108,375</b>	<b>114,810</b>
Fellow subsidiaries	-	-	108,375	114,810
<b>Advances received:</b>	<b>-</b>	<b>-</b>	<b>167,011</b>	<b>167,015</b>
Fellow subsidiaries	-	-	167,011	167,015

**(c) Management compensation**

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

Total remuneration to key management, Board of Directors and Management Board members for the year ended 31 December 2014, included into personnel costs (Note 9) was:

	Year ended 31 December 2014	Year ended 31 December 2013
Salary and bonuses (including contributions to state insurance funds)	306,280	214,141
Pensions and post-employment benefits	265	428

The amount of commitments to key management personnel included in employee benefit obligations (Note 25) was as follows:

	31 December 2014	31 December 2013
Present value of defined benefit and defined contribution plans, as well as other payments for post-employment benefits	2,465	2,565

**(d) Transactions with government-related entities**

The Group applies the exemption in IAS 24 Related party disclosures that allows to present reduced related party disclosures regarding transactions with government-related entities.

In the course of business, the Group makes a significant number of transactions with companies that are government-related. These operations are carried out under the regulated tariffs, or in accordance with market prices.

Revenues from government-related entities accounts for 24% of total revenue for the year ended 31 December 2014, (for the year ended 31 December 2013: 4%) including 23% of the proceeds from the transfer of electricity (for the year ended 31 December 2013: 4%).

Costs of electricity transmission for government-related entities account for 15% of the total cost of the electricity transmission for the year ended 31 December 2014 (for the year ended 31 December 2013: 30%).

Since 14 June 2013 operations with JSC “FGC UES” were disclosed as operations with fellow subsidiaries due to the fact that on that date the state-owned shares (79.64%) of this entity were handed over from the Russian Federation represented by the Federal Agency for State Property Management (Rosimushchestvo) to JSC “Russian Grids”. The share of the cost of electricity transmission to government-related entities decreased.

**(e) Loans and borrowings received from government-related entities**

	<b>Addition of loans and borrowings</b>	<b>The balance of transactions</b>	<b>Addition of loans and borrowings</b>	<b>The balance of transactions</b>
	<b>2014</b>	<b>31 December 2014</b>	<b>2013</b>	<b>31 December 2013</b>
Loans and borrowings received	6,650,000	24,872,738	21,933,900	23,173,827
	<b>6,650,000</b>	<b>24,872,738</b>	<b>21,933,900</b>	<b>23,173,827</b>

Loans and borrowings are drawn at the market interest rate (Note 28).

**(f) Pricing policy**

Transactions with related parties for the transmission of electricity are carried out at the tariffs set by the state.

**33 EVENTS AFTER THE REPORTING PERIOD**

Events after the balance sheet date, which should be reflected in the consolidated financial statements for the reporting period, have not been identified.