**Explanatory note to the accounting balance sheet and P&L statement for 2014**

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## General information on the Company

|  |  |  |
| --- | --- | --- |
| 1.1. | Full name | Interregional Distribution Grid Company of Centre, Joint-Stock Company;  TIN/CRR 6901067107/997450001 |
| 1.2. | Short name | IDGC of Centre, JSC |
| 1.3. | State registration (PSRN, date) | 1046900099498  dated from 17.12.2004 |
| 1.4. | Principal place of business (legal address) | 2nd Yamskaya, 4,  Moscow, 127018 |
| 1.5. | Postal address: | 2nd Yamskaya, 4,  Moscow, 127018 |
| 1.6. | Information on the authorised capital | The authorised capital of the Company equals to 4 221 794  thousand rubles |
| 1.7. | Information on the participants | Total number of persons, recorded in the register of issuer’s shareholders as of end date of the last accounting quarter: ***14191***  Total number of nominees: ***9*** |
| 1.8. | The Company’s auditor | Ernst & Young LLC |

The main business activities of IDGC of Centre, JSC are:

* Electric power transmission and distribution in 0.4-110 kV power grid.
* New connections to 0.4-110 kV power grid.
* Sale of electric energy (power).
* Other services

The main sales markets of the services provided by IDGC of Centre, JSC and the Company’s branches are 11 constituent entities of the Russian Federation, located in Central Federal District of the Russian Federation, in which IDGC of Centre, JSC operates. These constituent entities include the Belgorod, Bryansk, Voronezh, Kostroma, Kursk, Lipetsk, Orel, Smolensk, Tambov, Tver and Yaroslavl regions.

IDGC of Centre, JSC renders grid connection services to the following final applicants: individuals (private sector), legal entities (small, medium-sized, large business), territorial co-operating grid companies, budget companies.

From 01.02.2014 the transfer of functions of a supplier of last resort to other organizations - winners of the tender began: in Orelenergo - from 01.02.2014, in Kurskenergo and Tverenergo - from 01.04.2014 and 01.12.2014, in Bryanskenergo and Smolenskenergo - from 01.06.2014.

In 2013 the function of the supplier of last resort were performed from 01.02.13 by Kurskenergo, Orelenergo, Bryanskenergo, from 01.05.2013 by Tverenergo, and from 01.10.2013 by Smolenskenergo.

**Divisions and representative offices of the Company**

|  |  |  |
| --- | --- | --- |
| **№ Item #** | **Division name** | **Division location** |
| 11. | Division of IDGC of Centre, JSC – “Belgorodenergo” | 42 Preobrazhenskaya St., Belgorod, 308000, the Russian Federation |
| 22. | Division of IDGC of Centre, JSC – “Bryanskenergo” | 35 Sovetskaya St., Bryansk, 241000, the Russian Federation |
| 33. | Division of IDGC of Centre, JSC – “Voronezhenergo” | 2 Arzamasskaya St., Voronezh, 394033, the Russian Federation |
| 44. | Division of IDGC of Centre, JSC – “Kostromaenergo” | 53 Mir Avenue, Kostroma, 156961, the Russian Federation |
| 55. | Division of IDGC of Centre, JSC – “Kurskenergo” | 27 K. Marx St., Kursk, 305029, the Russian Federation |
| 66. | Division of IDGC of Centre, JSC – “Lipetskenergo” | 33 50 let NLMK St., Lipetsk, 398001, the Russian Federation |
| 77. | Division of IDGC of Centre, JSC – “Orelenergo” | 2 Mir Square, Orel, 302030, the Russian Federation |
| 88. | Division of IDGC of Centre, JSC – “Tambovenergo” | 23 Morshanskoe shosse, Tambov, 392680, the Russian Federation |
| 99. | Division of IDGC of Centre, JSC – “Smolenskenergo” | 33 Tenisheva St., Smolensk, 214019, the Russian Federation |
| 110. | Division of IDGC of Centre, JSC – “Tverenergo” | 1 Bebel St., Tver, 170006, the Russian Federation |
| 111. | Division of IDGC of Centre, JSC – “Yarenergo” | 12 Voinov St., Yaroslavl, 150003, the Russian Federation |

Average number of employees of IDGC of Centre in 2014 was 29 905 people.

Average staffing number of IDGC of Centre in 2014 was 29 657 people.

Management bodies of the Company:

* General Meeting of Shareholders
* Board of Directors
* Management Board
* General Director

The Company’s Board of Directors performs general management of the Company’s activity, except for solution of issues referred to the competence of the General Meeting of Shareholders by the Federal Law “On Joint-Stock Companies” and the Company’s Articles of Association.

**Data on the members of the management and control bodies of IDGC of Centre:**

| **#** | **Full name** | | **Title** |
| --- | --- | --- | --- |
| 1 | 2 | | 3 |
| **Board of Directors, elected by the General Meeting of Shareholders of 26.06.2014**  **(Minutes # 01/14 of 30.06.2014)** | | | |
| 1 | Oxana Vladimirovna Shatokhina | | Chairperson of the Board of Directors of IDGC of Centre,  Deputy General Director for Economy of JSC «Russian Grids» |
| 2 | Yury Nikolayevich Mangarov | | Deputy Chairperson of the Board of Directors of IDGC of Centre, Adviser of JSC «Russian Grids» |
| 3 | Alexander Markovich Branis | | Member of the Board of Directors of IDGC of Centre,  Director of Prosperity Capital Management (Russian Federation) Ltd. |
| 4 | Oleg Yuryevich Isaev | | Member of the Board of Directors of IDGC of Centre,  Chairman of the Management Board, General Director of IDGC of Centre |
| 5 | Denis Viktorovich Kulikov | | Member of the Board of Directors of IDGC of Centre, Adviser to Executive Director of Association for Protection of rights of investors |
| 6 | Maria Valeryevna Lazareva | | Member of the Board of Directors of IDGC of Centre, Director of Expert-Analytical Department of JSC «Russian Grids» |
| 7 | Maxim Mikhailovich Saukh | | Member of the Board of Directors of IDGC of Centre,  Head of Corporate Governance Office of JSC «Russian Grids» |
| 8 | Pavel Nikolayevich Snikkars | | Member of the Board of Directors of IDGC of Centre, Director of Electric Power Industry Development Department of the Russian Ministry of Energy |
| 9 | Vladimir Vladimirovich Sofyin | | Member of the Board of Directors of IDGC of Centre, Director of Technology Development and Innovation Department of JSC «Russian Grids» |
| 10 | Roman Alexeyevich Filkin | | Member of the Board of Directors of IDGC of Centre,  Representative Office of Prosperity Capital Management (Russian Federation) Ltd., Co-Director, power engineering, machine building |
| 11 | Natalia Ilyinichna Erpsher | | Member of the Board of Directors of IDGC of Centre, Head of Organizational Development Office of Personnel Policy and Organizational Development Department of JSC «Russian Grids» |
| **Collegial Executive Body – Management Board from 15.10.2014**  **(Minutes of the Board of Directors # 23/14 of 16.10.2014)** | | | |
| 1 | Oleg Yuryevich Isaev | | Chairman of the Management Board, General Director of IDGC of Centre |
| 2 | Ivan Petrovich Kleymenov | | Member of the Management Board of IDGC of Centre, General Director - Director of the branch of IDGC of Centre - «Voronezhenergo» |
| 3 | Artem Evgenyevich Kuranov | | Member of the Management Board, First Deputy General Director of IDGC of Centre |
| 4 | Igor Viktorovich Maximov | | Member of the Management Board, Deputy General Director for Capital Construction of IDGC of Centre |
| 5 | Alexander Viktorovich Pilyugin | | Member of the Management Board, First Deputy General Director - Chief Engineer of IDGC of Centre |
| 6 | Sergey Yuryevich Rumyantsev | | Member of the Management Board, Deputy General Director for Economy and Finance of IDGC of Centre |
| 7 | Lyudmila Alexeevna Sklyarova | | Member of the Management Board, Chief Accountant - Head of Financial and Tax Accounting and Reporting Department of IDGC of Centre |
| **Chief Executive Officer – General Director (from 11.12.2012)** | | | |
| 1 | Oleg Yuryevich Isaev | | Chairman of the Management Board, General Director of IDGC of Centre |
| **Audit Commission, elected by the General Meeting of Shareholders of 26.06.2014 (Minutes # 01/14 of 30.06.2014)** | | | |
| 1 | Marina Alexeyevna Lelekova | Chairperson of the Audit Commission of IDGC of Centre, Director of Internal Audit and Control Department of JSC «Russian Grids» | |
| 2 | Elena Polikarpovna Kuznetsova | Member of the Audit Commission of IDGC of Centre, Head of Control and Audit Section of Internal Audit and Control Department of JSC «Russian Grids» | |
| 3 | Elena Yuryevna  Guseva | Member of the Audit Commission of IDGC of Centre, Leading Expert of Investment Audit Section of Internal Audit Office of Internal Audit and Control Department of JSC «Russian Grids» | |
| 4 | Sergey Vladimirovich  Malyshev | Member of the Audit Commission of IDGC of Centre, Leading Expert of Investment Audit Section of Internal Audit Office of Internal Audit and Control Department of JSC «Russian Grids» | |
| 5 | Sergey Ivanovich  Ochikov | Member of the Audit Commission of IDGC of Centre, Leading Expert of General Audit Section of Internal Audit Office of Internal Audit and Control Department of JSC «Russian Grids» | |

## General rules of the accounting reporting and short description of the main provisions of the accounting policy

Annual accounting statements of the company are prepared according to requirements of the legislation of the Russian Federation.

The business accounting of property, obligations and economic transactions is done on the basis of natural measuring instruments in money terms by the overall, continuous, documentary and interconnected recognition. Indicators of annual accounting records are resulted proceeding from a principle of importance for a financial standing estimation by all interested users.

The accounting statements data are presented in thousand roubles.

The accounting statements of the Company are prepared in accordance with applicable regulations of the Russian Federation on accounting and reporting, in particular, Federal Law dated 06.12.2011 # 402-FZ «About the business accounting», Provisions on conducting the business accounting and accounting reporting in the Russian Federation, approved by Order of the Ministry of Finance of the Russian Federation from 29.07.1998 # 34-n (with amendments and modifications), Provisions on the business accounting, approved by orders of the Ministry of Finance of Russia.

The Company’s accounting policy is generated proceeding from assumptions that:

* assets and obligations of the Company exist separately from assets and obligations of proprietors and assets and obligations of other companies (the economic entity assumption);
* the Company will continue the activity in the foreseeable future and it does not have intentions and necessity of liquidation or essential reducing of activity and, hence, the obligations will be repaid when due hereunder (the accounting continuity assumption);
* the accounting policy adopted by the Company is applied in succession from one accounting year to another (assumption of sequence of application of accounting policy);
* facts of economic activities of the Company concern that accounting period in which they took place, irrespective of actual time of receipt or payment of the money funds connected with these facts (assumption of time definiteness of facts of economic activities).

***Fixed Assets.*** Asset accounting is performed in accordance with RAS 6/01, approved by Order of the Ministry of Finance of Russia from 30.03.2001 # 26n (with amendments and modifications).

Methods of depreciation and amortization for separate groups of fixed assets items:

Depreciation of fixed assets is added by straight-line method within rates of the Russian Federations established by Resolution of the Government #1 from 01.01.2002 «About classification of the fixed assets included in amortization groups».

Methods of estimation of items of the fixed assets received under contracts, providing execution of obligations (payment) by non-monetary funds:

The items of fixed assets received by the Company under contracts, providing execution of obligations (payment) not by money funds (in particular under exchange contracts), are estimated at cost of the values which are transferred or subject to transfer by the Company. Cost of the values, which are transferred or subject to transfer by the Company, is established from the price on which in comparable circumstances the Company usually determines cost of similar values.

The terms of useful use of items of fixed assets recognized by the company (by primary groups) are included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.3.2.

***Intangible Assets.*** Intangible asset accounting is performed in accordance with RAS 14/2007, approved by Order of the Ministry of Finance of Russia from 27.12.2007 # 153n (with amendments and modifications).

The terms of useful use of intangible assets recognized by the company in 2014:

|  |  |
| --- | --- |
| **Intangible Assets Group** | **Term of useful use (number of years) of items, which transfer of ownership was accepted** |
| Exclusive rights on a trade mark | 9 - 10 years |
| Exclusive rights on computer programs, DB | 3 - 10 years |
| Exclusive rights on an invention, industrial pattern, utility model | 10 years |
| R&D deliverables | 5 years |

Methods of estimation of the intangible assets acquired not for money funds:

The intangible assets received by the Company under contracts, providing execution of obligations (payment) not by money funds (in particular under exchange contracts), are estimated at cost of the values which are transferred or subject to transfer by the Company. Cost of the values, which are transferred or subject to transfer by the Company, is established from the price on which in comparable circumstances the Company usually determines cost of similar values.

Methods of determination of depreciation of intangible assets:

The sum of depreciation charges on intangible assets is determined on the rates calculated proceeding from their original cost and term of useful use (straight-line method).

Changes of terms of useful use of intangible assets:

Term of useful use of an intangible asset is annually checked by the Company on necessity of its specification. In case of essential change of duration of the period during which the Company assumes to use the assets, term of its useful use is specified. Arisen in this connection adjustments are recognized in the business accounting and the accounting statements at the beginning of an accounting year as changes in estimate values.

Changes of methods of determination of intangible assets depreciation:

The method of determination of depreciation of an intangible asset is annually checked by the Company on necessity of its specification. If calculation of expected receipt of the future economic gains from an intangible asset use has essentially changed, the method of determination of depreciation of such assets changes accordingly. Arisen in this connection adjustments are recognized in the business accounting and the accounting statements at the beginning of an accounting year as changes in estimate values.

***Inventories.*** Accounting of inventories is performed in accordance with RAS 5/01, approved by Order of the Ministry of Finance of Russia from 09.06.2001 # 44n (with amendments and modifications).

Methods of estimation of inventories:

Inventories are valued at cost of purchase. Write-off of inventories in production was carried out at average cost.

***Financial investments.*** Financial investment accounting is performed in accordance with RAS 19/02, approved by Order of the Ministry of Finance of Russia from 10.12.2002 # 126n (with amendments and modifications).

As financial investments the Company recognizes assets which do not have material and physical form and are capable to provide economic benefits (income) in future in form of interest, dividends or increment of their value (in form of difference between selling price (redemption) and purchase value) as the result of their exchange, use at repayments of liabilities, increase of current market value.

Analytical accounting of financial investment is kept in frame of reference of long-term and short-term financial investments. The long-term financial investments are the investments made with a view to draw income on them during more than one year. Other financial investments are the short-term ones.

In the financial statements the financial investments are subdivided into short-term and long-term depending on the circulation (repayment) period.

The financial investments on which the current market value may be determined ordinarily are reflected in the statements for later the reporting year at the current market value by means of adjustment of their appraisal on the previous accounting date. The mentioned adjustment is carried out by the Company quarterly.

Difference between the appraisal of financial investments at the current market value at the accounting date and the previous appraisal of financial investments is recognized by the Company to be the other income and expenditure. Therefore, increment of market value of investments is reflected according to the debit of account “Financial investments” and according to the credit-side “Other income and expenditure”, reduction - according to the debit of account “Other income and expenditure” and according to credit-side “Financial investments”.

In case when at the accounting date the current market value is not determined regarding the object of the financial investments appraised before at the current market value such object of the financial investments is reflected in the statements at the value of its last appraisal.

The financial investments basing on which the current market value is not determined are reflected in the accounting at the initial value.

At the retirement of assets included for the accounting as financial investments basing on which the current market value is determined their value is determined by the Company on the basis of the last appraisal.

Securities (shares and bonds) are evaluated at the retirement at the average historical cost which is determined for each type of securities.

Income on the financial investments is recognized by the Company to be the other income.

***Revenues.*** The Company divides the revenues into revenues from ordinary activities and other revenues.

Revenues from ordinary activities are the receipts connected with rendering of services, accomplishment of works, from sale of goods and products to third party companies.

All income, which is not connected with realisation of works and services in ordinary activities, is recognized as other income. The revenue is recognized for the business accounting in the sum estimated in money terms, equal size of receipt of money funds and other property and (or) accounts receivable size.

***Commercial and administrative expenses.*** General economic expenses are recognized in full amount as administrative expenses.

Expenses recorded in account 44 «Selling expenses», on a monthly basis are debited to account 90 «Sales» in the full amount. These expenses are recognized in the profit and loss statement in line «Business expenses».

***Cash Flow Statement.*** ***Cash equivalents and presentation of cash flows in the cash flow statement.*** In accordance with RAS 23/2011, approved by Order of the Ministry of Finance of Russia from 02.02.2011 # 11n, the Company defines approaches for separating cash equivalents from other financial investments.

Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. These include bills with maturities of three months or less, short-term government securities and bank deposits with a maturity of 3 months or less.

Data on cash and highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value (hereinafter - cash equivalents) are summarized in the statement of cash flows.

When generating a statement of cash flows under «Cash flows from operating activities» payments for wages of employees are recognized at cost, which includes, inter alia, subject to deduction from the amount of compensation of employees sums (for example, the amount of taxes on personal income, payments writs).

***Segment Reporting***. In accordance with RAS 12/2010, approved by Order of the Ministry of Finance of Russia from 08.11.2010 # 143n (with amendments and modifications), the information of segments is included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.13. and in Appendix #1.

***Changes in accounting policy.*** No significant changes in accounting policy are intended in 2015.

## Disclosure of essential indicators

* 1. Information on transactions in foreign currency

In the accounting period transactions in foreign currency were not performed.

* 1. Information on inventories

The information on inventories is included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.5.1.

In 2014 inventories were not pledged.

As at December 31, 2014 the reserve under decrease in value of tangible assets in the amount of 5 149 thous. RUB was created.

* 1. Information on fixed assets

Availability and flow of fixed assets for 2013-2014 are included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.3.1.

In the statements the fixed assets are recorded at depreciated cost (original/replacement cost less accumulated depreciation).

Changes of the value of fixed assets resulting from completion, retrofit, renovation and partial liquidation are included in 5.3.3 for 2013-2014.

On the off-balance account of the Company as of 31.12.2014 the leased fixed assets are registered, which are included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.3.4 and 5.12.

In accordance with the Company's method of accounting fixed assets no revaluation of fixed assets is performed by the Company.

The Company does not have income yielding investments into tangible assets.

* 1. Information on intangible assets

Availability and flow of intangible assets for 2013-2014 are included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.1.1.

* 1. Information on receivables and payables

The structure of receivables is recorded in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.6.1.

The structure of payables is recorded in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.6.5

As of 31.12.2014 a provision for doubtful debts in the amount of 10 500 468 thous. RUB was created. Of these the reserve in the amount of 7 324 861 thous. RUB was accrued for companies in respect of which the bankruptcy procedure was introduced. In particular, the companies, which were deprived of their status of suppliers of last resort in 2013, were in the process of bankruptcy (JSC "Bryanskenergosbyt", JSC "Kurskregionenergosbyt", JSC "Orelenergosbyt", JSC "Tverenergosbyt", JSC "Smolenskenergosbyt"). The provision for these companies is 7 087 103 thous. RUB.

Information on material disagreements with retail companies is recorded in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.6.4.

* 1. Information on credits and loans

3.6.1. Information on credits and loans in included in the explanatory note to the accounting balance sheet and the profit and loss statement in tables 5.6.7, 5.6.8.

3.6.2. Debt of IDGC of Centre under credits and loans as at 31.12.2014 will be paid back within the following terms:

In the period from 2015 to 2025 the credits and loans in the amount of 37 200 970 thous. RUB will be mature, including:

in 2015 – 9 400 000 thous. RUB,

in 2016 – 1 500 000 thous. RUB,

in 2017 – 12 050 000 thous. RUB,

in 2018 – 11 120 000 thous. RUB,

in 2025 – 3 000 000 thous. RUB.

The sum of free limits under acting credit contracts of the Company as at 31.12.2014 is 10 150 000 thous. RUB

3.6.3. The cost of investment assets in 2014 included interest payable to the lender (creditor) in the amount of 225 975 thous. RUB.

3.6.4. Short-term loans include bonded loans in the amount of 4 000 000 thous. RUB, which was made by the Company in 2012. It matures in 2015.

* 1. Information on financial investments

3.7.1. Financial investments are included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.4.1(1), 5.4.1 (2), 5.4.2, 5.4.3.

IDGC of Centre does not have any encumbered securities and other financial investments.

3.7.2. IDGC of Centre is the sole shareholder of JSC «Yargorelectroset», owning 100% (one hundred percent) of the total issued voting shares of JSC «Yargorelectroset».

JSC «Yargorelectroset» is a natural monopoly in the provision of services for the transmission of electricity to consumers in the city of Yaroslavl, which serves 75% of consumers in Yaroslavl.

According to the decision of the sole shareholder of JSC «Yargorelectroset» - IDGC of Centre - from 09.23.2014, the decision on the wind-up of JSC «Yargorelectroset» voluntarily was taken.

In 2015 it is planned to transfer power grid facilities of JSC «Yargorelectroset» involved in electric power transmission and in grid connection activities, and property that provides the performance of functions of the electric power transmission and grid connection to the sole shareholder - IDGC of Centre.

* 1. Information on contingencies
     1. Contingencies of the Company are represented as the provision for future expenses, allowance for future holiday payment and allowance for the payment of remuneration for the year, and allowance for litigation.

Sum of contingencies, recognized in the reporting period, is recorded in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.7.1.

In the course of its operational activities the Company is a party to litigation. For abortive trials where the Company acts as a defendant with a low degree of foreclosure in favour of the Company a valuation allowance for litigation was created.

Estimated date of execution of contingencies for abortive trials is less than 12 months and estimated liabilities for litigation are recorded in the balance sheet of IDGC of Centre as a current liability.

As at 31 December 2014 the Company acts as a defendant in litigation with JSC "Lipetsk Energy Retail Company" and JSC "Tverenergosbyt" for the recovery of debt to pay for electricity purchased in order to compensate for losses in electric grids. The total amount of the principal debt, challenged in these proceedings, is 2 121 141 thous. RUB. Given the presence of some positive jurisprudence, the Company does not recognize a provision for estimated liabilities at the balance sheet date in respect of these claims, as it believes that the likelihood of resolution of disputes arising in favour of IDGC of Centre as high.

As at 31.12.2014 the reserves for future expenses also record the amount of estimated liability accrued for severance pay to employees of IDGC of Centre in the amount of 706 thous. RUB due to the loss of the function of a supplier of last resort (Note 3.18.3).

3.8.2. Information on provisions of IDGC of Centre given and received is included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.8.

* 1. Information on income

Income for the accounting year is included in the profit and loss statement separately on ordinary activities and under other income with breakdown by kinds and values.

Other income is included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.11.

Distribution of revenue and expenses by type of activity, excluding the delivery component of electricity sales under power supply contracts:

thous. RUB

|  |  |  |
| --- | --- | --- |
| **Name** | **2013** | **2014** |
| **Proceeds (net) from sales of products (services), total** | **92 947 498** | **86 705 172** |
| from electricity transmission | 75 181 511 | 75 904 371 |
| from electricity sale\* | 15 984 687 | 8 300 110 |
| from other products (services) of core activities | 1 781 300 | 2 500 691 |
| **Cost of sales of products (sevices), total** | **(78 132 435)** | **(73 947 573)** |
| from electricity transmission | (63 282 632) | (65 815 002) |
| from electricity sale\* | (14 146 272) | (7 349 508) |
| from other products (services) of core activities | (703 531) | (783 063) |

\*- excluding the delivery component.

* 1. Information on expenses

Expenses for the accounting year are included in the profit and loss statement separately on ordinary activities and on miscellaneous costs with breakdown by kinds and values.

Expenses on ordinary activities broken down to elements of costs are included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 2.1.

Other costs are included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.11.

As at 31 December 2014 the Company recorded deferred expenses in Other non-current assets and Other current assets in the amount of 453,202 thous. RUB and 17,333 thous. RUB, respectively.

* 1. Information on related parties

In the explanatory note the Company disclosed the information on the related parties.

Related parties are legal and (or) individuals capable of influencing the activities of the Company, or over which the Company is able to influence.

Related parties of the Company shall be persons possessing more than 20 percent of the votes in the supreme governing body of the Company; legal entities that are subsidiaries of the same company, which is a subsidiary of the Company itself; subsidiaries of the Company; members of the Board of Directors (Supervisory Board) of the Company; persons exercising powers of the chief executive officer, members of the collegial executive body of the Company, as well as other persons who, due to a predominant stake in the authorized capital, or in accordance with the contract are able to define decisions taken by the Company.

List of affiliates is available on the Company's website at:

<http://www.mrsk-1.ru/information/affiliates/2014>/

* + 1. Settlements on contractual obligations for services provided by affiliates to the Company in 2013:

| **Item #** | **Name of the organization - an affiliate** | **Service type** | **Total accounts payable (+) / receivable (-) as at 31.12.2012, thous. RUB.** | **Amount of charges, thous. RUB.** | **Maturity value, thous. RUB.** | **Total accounts payable (+) / receivable (-) as at 31.12.2013, thous. RUB.** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | OJSC «EC UES Real Estate»[[1]](#footnote-1) | motor transport services | 4 360 | - | 4 360 | - |
| 2 | OJSC «EC UES Real Estate»1 | lease of technical (motor) vehicles agreement without provision of driving and technical maintenance | 295 | - | 295 | - |
| 3 | OJSC «Energy Service Company»[[2]](#footnote-2) | construction and installation work | 13 094 | 253 075 | 279 650 | (13 481) |
| 4 | OJSC «Energy Service Company»2 | energy audit services | 80 110 | 9 270 | 89 380 | - |
| 5 | OJSC «Energy Service Company»2 | calls processing | 4 407 | 35 423 | 39 830 | - |
| 6 | OJSC «Sanatorium-preventorium «Energetik»2 | services in lodging and board | - | 1 089 | 1 089 | - |
| 7 | OJSC «Sanatorium-preventorium «Energetik»2 | service of providing vouchers for resort treatment | - | 25 | 245 | - |
| 8 | JSC «Russian Grids»[[3]](#footnote-3) | service on the operation and development of the distribution electric grid complex | 22 112 | 404 029 | 405 939 | 20 201 |
| 9 | OJSC «Yargorelectroset»2 | electric energy transmission service | 52 258 | 773 024 | 781 880 | 43 402 |
| 10 | OJSC «YarEGC»2 | electric energy transmission service | 35 251 | 268 109 | 277 454 | 25 906 |
| 11 | FGC UES1 | electric energy transmission service | 726 149 | 17 390 061 | 17 028 282 | 1 087 928 |
| 12 | FGC UES1 | grid connection services | (32 102) | 4 782 | 4 784 | (32 104) |
| 13 | FGC UES1 | technical supervision of electric grid facilities | - | 12 585 | 12 585 | - |
| 14 | FGC UES1 | lease services | (9 734) | 833 | 226 | (9 127) |
| 15 | FGC UES1 | construction and installation work | (1 140) | - | - | (1 140) |

A legal entity which is a subsidiary of the same company, which is a subsidiary of the Company itself

3.11.2. Settlements on contractual obligations for services provided by the Company to affiliates in 2013:

| **Item #** | **Name of the organization - an affiliate** | **Service type** | **Total accounts receivable (+) / payable (-) as at 31.12.2012, thous. RUB.** | **Amount of charges, thous. RUB.** | **Maturity value, thous. RUB.** | **Total accounts receivable (+) / payable (-) as at 31.12.2013, thous. RUB.** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | OJSC «Energy Service Company»[[4]](#footnote-4) | service of providing the loan of monetary funds | 161 600 | - | - | 161 600 |
| 2 | OJSC «Energy Service Company»1 | % on the loan of monetary funds | 1 129 | 13 332 | - | 14 461 |
| 3 | OJSC «Energy Service Company»1 | treasury services | - | 324 | 288 | 36 |
| 4 | OJSC «Energy Service Company»1 | other settlements | 100 | - | - | 100 |
| 5 | OJSC «Energy Service Company»1 | real estate lease | 108 | - | 108 | - |
| 6 | OJSC «Sanatorium-preventorium «Energetik»1 | other settlements | 30 710 | - | - | 30 710 |
| 7 | OJSC «Yargorelectroset»1 | service of providing the loan of monetary funds | 157 000 | - | - | 157 000 |
| 8 | OJSC «Yargorelectroset»1 | % on the loan of monetary funds | 3 552 | 14 130 | 14 120 | 3 562 |
| 9 | OJSC «Yargorelectroset»1 | other settlements | 2 204 230 | - | - | 2 204 230 |
| 10 | OJSC «Yargorelectroset»1 | treasury services | - | 600 | 600 | - |
| 11 | OJSC «Yargorelectroset»1 | grid connection services | (917) | 12 284 | 4 211 | 7 156 |
| 12 | OJSC «YarEGC»1 | maintenance of equipment | 6 | 82 | 79 | 8,07 |
| 13 | FGC UES2 | property lease | - | 2 050 | 2 050 | - |
| 14 | FGC UES2 | emergency and restoration activities | - | 15 184 | - | 15 184 |
| 15 | FGC UES2 | grids removal to another site | - | 177 | 177 | - |
| 16 | FGC UES2 | other settlements | 4 964 | - | 2 171 | 2 793 |
| 17 | FGC UES2 | compensation of residual value of removed facilities | - | 131 759 | 131 759 | - |
| 18 | FGC UES2 | other settlements (compensation for breach of property rights) | (167 010) | - | - | (167 010) |

A legal entity which is a subsidiary of the same company, which is a subsidiary of the Company itself

2 A legal entity which is a subsidiary of the Company

3.11.3.  Settlements on contractual obligations for services provided by affiliates to the Company in 2014:

| **Item #** | **Name of the organization - an affiliate** | **Service type** | **Total accounts payable (+) / receivable (-) as at 31.12.2013, thous. RUB.** | **Amount of charges, thous. RUB.** | **Maturity value, thous. RUB.** | **Total accounts payable (+) / receivable (-) as at 31.12.2014, thous. RUB.** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | JSC «Russian Grids»3 | service on the operation and development of the distribution electric grid complex | 20 201 | 404 029 | 404 029 | 20 201 |
| 2 | JSC «Russian Grids»3 | technical supervision of electric grid facilities | - | 34 901 | 34 901 | - |
| 3 | IDGC of Volga1 | service to hold the Interregional qualifying competition for staff of SDCs of Russian Grids for repair and maintenance of distribution 0.4 - 10 kV networks | - | 2 400 | 2 400 | - |
| 4 | IDGC of North-West1 | emergency and restoration activities at electric grid facilities | - | 1 913 | 1 912 | - |
| 5 | IDGC of North-West1 | electric grid facilities lease | - | 26 | 26 | - |
| 6 | MOESK1 | emergency and restoration activities at electric grid facilities | - | 1 662 | 1 662 | - |
| 7 | IDGC of Centre and Volga Region1 | grid connection services | (33) | 33 | 36 | (36) |
| 8 | IDGC of Centre and Volga Region1 | emergency and restoration activities | - | 5 795 | 5 795 | - |
| 9 | Lenenergo1 | payments to suppliers and contractors for Fixed Assets | 6 405 | - | 553 | 5 852 |
| 10 | FGC UES1 | electric energy transmission services | 1 087 928 | 18 120 439 | 16 816 293 | 2 392 074 |
| 11 | FGC UES1 | grid connection services | (32 104) | 4 823 | (873) | (26 408) |
| 12 | FGC UES1 | emergency and restoration activities | - | 374 | 374 | - |
| 13 | FGC UES1 | lease services | (9 127) | 4 831 | 220 | (4 516) |
| 14 | FGC UES1 | construction and installation work | (1 140) | 176 | (56) | (907) |
| 15 | FGC UES1 | acquisition of immovable property | - | 260 | 260 | - |
| 16 | FGC UES1 | other settlements | - | 37 | 37 | - |
| 17 | NIIC-MRSK 1 | engineering works | - | 4 000 | 4 000 | - |
| 18 | ZRETO 1 | overhaul | - | 47 814 | 43 492 | 4 322 |
| 19 | OJSC «Yargorelectroset» 2 | electric energy transmission services | 43 402 | 872 189 | 831 396 | 84 196 |
| 20 | OJSC «Energy Service Company» 2 | construction and installation work | (13 481) | 14 987 | 1 506 | - |
| 21 | OJSC “Energetik” 2 | services in lodging and board | - | 881 | 881 | - |
| 22 | Mobile GTES1 | services under the agency agreement | - | 5 432 | - | 5 432 |
| 23 | EESNET1 | communication services | 53 | 1 047 | 1 053 | 48 |
| 24 | NTC-POWER 1 | developmental and technological work | - | 3 422 | 3 422 | - |
| 25 | NTC-POWER 1 | research engineering | - | 5 900 | 5 900 | - |
| 26 | NTC-POWER 1 | services for the organization to participate in chess tournament | - | 90 | 90 | - |
| 27 | ESS-ENES 1 | emergency and restoration activities | - | 259 | 259 | - |
| 28 | IT Energy 1 | service to maintain reference data | - | 2 434 | - | 2 434 |
| 29 | IT Energy 1 | supply of server hardware | - | 4 230 | 4 230 | - |
| 30 | IT Energy 1 | consulting services | 602 | - | 602 | - |
| 31 | OJSC «YarEGC» 2 | electric energy transmission services | 25 906 | 302 225 | 296 339 | 31 792 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1 A legal entity which is a subsidiary of the same company, which is a subsidiary of the Company itself | | | | | |
| 2 A legal entity which is a subsidiary of the Company | | |  |  |  |
| 3 The parent company of the Company | |
|  | 3.11.4. Settlements on contractual obligations for services provided by the Company to affiliates in 2014: | | | | |

| **Item #** | **Name of the organization - an affiliate** | **Service type** | **Total accounts receivable (+) / payable (-) as at 31.11.2013, thous. RUB.** | **Amount of charges, thous. RUB.** | **Maturity value, thous. RUB.** | **Total accounts receivable (+) / payable (-) as at 31.12.2014, thous. RUB.** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | JSC «Russian Grids»3 | provision of workplaces | - | 920 | 920 | - |
| 2 | JSC «Russian Grids»3 | sale of inventories | - | 25 168 | - | 25 168 |
| 3 | IDGC of South2 | emergency and restoraion work in the aftermath of a natural disaster at facilities of IDGC of South - Volgogradenergo | - | 1 817 | - | 1 817 |
| 4 | IDGC of Centre and Volga Region2 | other settlements (shares) | 1 057 | 374 | 8 | 1 423 |
| 5 | IDGC of Centre and Volga Region2 | other settlements (dividends) | - | 23 | 23 | - |
| 6 | Lenenergo2 | the right to install fiber-optic lines at power facilities | - | 553 | 553 | - |
| 7 | Kubanenergo2 | work on the technical, operational maintenance and repair of facilities owned by Kubanenergo | - | 10 460 | - | 10 460 |
| 8 | FGC UES2 | property lease | - | 2 050 | 2 050 | - |
| 9 | FGC UES2 | emergency and restoration activities | 15 184 | - | 15 184 | - |
| 10 | FGC UES2 | operational maintenance of electric equipment | - | 1 026 | 1 026 | - |
| 11 | FGC UES2 | grid connection services | - | - | 1 | (1) |
| 12 | FGC UES2 | other settlements (shares) | 2 793 | 4 353 | 654 | 6 492 |
| 13 | FGC UES2 | other settlements (compensation for breach of property rights) | (167 010) | - | - | (167 010) |
| 14 | FGC UES2 | other settlements (dividends) | - | 6 | 6 | - |
| 15 | FGC UES2 | electric energy sale | 34 | 558 | 592 | - |
| 16 | OJSC «FOCL-Conductor Administration»2 | grid connection service | (1) | 1 | - | - |
| 17 | OJSC «FOCL-Conductor Administration»2 | metering device installation | (4) | 4 | - | - |
| 18 | OJSC «Yargorelectroset»1 | % on the loan of monetary funds | 3 562 | 11 554 | 12 917 | 2 199 |
| 19 | OJSC «Yargorelectroset»1 | service of providing the loan of monetary funds | 157 000 | - | 65 000 | 92 000 |
| 20 | OJSC «Yargorelectroset»1 | dividends on shares | - | 13 697 | 13 697 | - |
| 21 | OJSC «Yargorelectroset»1 | other settlements | 2 204 230 | - | - | 2 204 230 |
| 22 | OJSC «Yargorelectroset»1 | grid connection services | 7 157 | 327 | 5 004 | 2 479 |
| 23 | OJSC «Yargorelectroset»1 | electric energy transmission service | - | 43 753 | 40 009 | 3 744 |
| 24 | OJSC «Yargorelectroset»1 | treasury services | - | 600 | 550 | 50 |
| 25 | OJSC «Energy Service Company»1 | % on the loan of monetary funds | 14 461 | 6 611 | - | 21 072 |
| 26 | OJSC «Energy Service Company»1 | state duty | - | 5 | - | 5 |
| 27 | OJSC «Energy Service Company»1 | service of providing the loan of monetary funds | 161 600 | - | - | 161 600 |
| 28 | OJSC «Energy Service Company»1 | other settlements | 100 | - | - | 100 |
| 29 | OJSC «Energy Service Company»1 | treasury services | 36 | 180 | - | 216 |
| 30 | OJSC “Energetik” 1 | % accrued on the loan | - | 1 | - | 1 |
| 31 | OJSC “Energetik” 1 | service of providing the loan of monetary funds | - | 2 000 | - | 2 000 |
| 32 | OJSC “Energetik” 1 | other settlements | 30 710 | - | - | 30 710 |
| 33 | OJSC “Energetik” 1 | dividends on shares | - | 14 | 14 | - |
| 34 | OJSC «YarEGC»1 | emergency repair of electric equipment | - | 6 | 6 | - |
| 35 | OJSC «YarEGC»1 | maintenance of equipment | 8 | 945 | 870 | 83 |
| 36 | OJSC «YarEGC»1 | electric energy transmission service | - | 4 112 | 3 761 | 352 |

A legal entity which is a subsidiary of the same company, which is a subsidiary of the Company itself

2 A legal entity which is a subsidiary of the Company

3 The parent company of the Company

3.11.5. Remuneration (salary, bonuses and other payments) of key management personnel of the Company for 12 months 2014:

|  |  |  |
| --- | --- | --- |
| **Title** | **Number of employees** | **Amount\*,  thous. RUB.** |
| **IDGC of Centre** |  |  |
| Employees classified as «Top managers» | 37 | 284 024 |
| Members of the Management Board | 9 | 1 040 |
| Members of the Board of Directors | 21 | 12 990 |
| Members of the Audit Commission | 5 | 1 350 |
| Members of Committees under the Board of Directors | 32 | 2 983 |
| **TOTAL** | **104** | **302 387** |

\* the amount is shown, including accrued taxes and mandatory payments to the appropriate budgets and off-budget funds.

3.11.6. Remuneration (salary, bonuses and other payments) of key management personnel of the Company for 12 months 2013:

|  |  |  |
| --- | --- | --- |
| **Title** | **Number of employees** | **Amount\*,  thous. RUB.** |
| **IDGC of Centre** |  |  |
| Employees classified as «Top managers» | 33 | 164 548 |
| Members of the Management Board | 10 | 833 |
| Members of the Board of Directors | 25 | 34 642 |
| Members of the Audit Commission | 8 | 2 636 |
| Members of Committees under the Board of Directors | 32 | 2 764 |
| **TOTAL** | **108** | **205 423** |

\* the amount is shown, including accrued taxes and mandatory payments to the appropriate budgets and off-budget funds.

* 1. Information on segments

The information on segments is included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.13. and Appendix #1.

For 2014 the Company received the revenue from OJSC "Belgorod Retail Company" (branch «Belgorodenergo») in the amount of 10 126 451 thous. RUB, which accounted for above 10% of the total revenue of the Company, including:

- revenue from electric energy transmission - 10 125 583 thous. RUB (including VAT 1 544 580 thous. RUB);

- revenue from lease - 854  thous. RUB (including VAT 130 thous. RUB);

- revenue from other services – 14 (including 2 thous. RUB).

* 1. Information on calculation of profit tax

Calculation of tax base following the results of 2014 was made on the basis of the tax accounting data. The taxable surplus for the accounting period is 4 856 251 thous. RUB, the profit tax estimated under the rate of 20% is 971 250 thous. RUB.

The transition from accounting income to taxable income for 2013-2014 is included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 2.3.

thous. RUB

|  |  |  |  |
| --- | --- | --- | --- |
| **#** | **Indicator** | **2014** | **2013** |
| 1. | **Profit (loss) before tax** | 4 863 878 | 1 929 423 |
| 2. | ***Permanent differences*** | 2 784 661 | 5 372 546 |
| 2.1. | Material aid, social privileges, etc. to employees, pensioners etc. | 778 666 | 392 177 |
| 2.2. | Revaluation of financial investments | (38 338) | 23 822 |
| 2.3. | Reserve reconstitution of doubtful debts | 3 439 081 | 1 882 934 |
| 2.4. | Reserve reconstitution under other contingent liabilities | (398 009) | (217 597) |
| 2.5. | Reserve reconstitution under depreciation of tangible assets | (13 616) | (77 305) |
| 2.6. | Fixed Assets depreciation | 843 806 | 897 580 |
| 2.7. | Profit of previous years | (805 111) | (469 684) |
| 2.8. | Expenses of previous tax periods considered in previous tax periods on the basis of the specified declaration | 2 233 014 | 629 263 |
| 2.9. | Expenses on charity | - | 2 228 |
| 2.10. | Accounts receivable write-off | 29 562 | 3 722 |
| 2.11. | Cultural and sports events | 45 087 | 13 795 |
| 2.12. | Payments to the Board of Directors and Audit Commission | 17 322 | 40 042 |
| 2.13. | Nonreimbursable VAT | 69 744 | 69 818 |
| 2.14. | Deductions and payments to employees of trade-union committee | 51 605 | 51 091 |
| 2.15. | Penalties, penalty fee, penalties, payments under settlement agreements | 63 542 | 9 524 |
| 2.16. | Reserve on doubtful debts | (4 854 998) | 1 390 834 |
| 2.17. | Reserve under other contingent liabilities | 352 348 | 64 097 |
| 2.18. | Reserve under write-down of tangible assets | 16 182 | 5 724 |
| 2.19. | Reserve under write-down of financial investments | 161 600 | - |
| 2.20. | Disposal of assets without income | 182 314 | - |
| 2.21. | Other | 610 860 | 660 481 |
| 3. | ***Deductible temporary differences*** | 427 985 | 38 675 |
| 3.1. | Fixed Assets depreciation (the amount of depreciation for tax accounting is less than the sum of depreciation for business accounting) | 135 540 | 113 756 |
| 3.2. | Provision for payment of annual compensation and annual leave | (139 598) | 72 858 |
| 3.3. | Contingencies | 472 245 | (168 934) |
| 3.4. | Other | (40 202) | 20 995 |
| 4. | ***Taxable temporary differences*** | 3 220 274 | 3 859 258 |
| 4.1. | Fixed Assets depreciation (the amount of depreciation for tax accounting is more than the sum of depreciation for business accounting) | 2 976 353 | 3 604 275 |
| 4.2. | Other taxable temporary differences | 243 921 | 254 983 |
|  | including interest on debt | 225 974 | 232 335 |
|  | Total (sum of line 2 + sum of line 3 – sum of line 4) | 36 632 | 1 551 963 |
|  | **TAX DECLARATION DATA** |  |  |
| 5. | Total profit (loss) under line 100 of Sheet 02 of the Tax declaration of current tax period | 4 856 251 | 3 481 385 |
| 5.1. | Current profit tax | 971 250 | 696 277 |
| 6. | Total full appreciated profit under the Tax declaration of previous tax periods | (406 370) | (3 466 710) |
| 6.1. | Full appreciated profit tax of previous tax periods | (81 274) | (693 343) |

The amount of the written off deferred tax asset was 86 395 thous. RUB, including:

* 86 597 thous. RUB – from write off of assessed reserves;
* 119 thous. RUB – from liquidation of fixed assets;
* (321) thous. RUB – other.

The amount of written-off deferred tax liabilities was 7 101 thous. RUB, including:

* 5 410 thous. RUB – recalculation of tax liability for previous tax periods for fixed assets;
* 1 274 thous. RUB – from write-off or sale of protective special gear;
* 417 thous. RUB – other.
  1. Information on participation in joint activity

The Company did not participate in any joint activity.

* 1. Capital

As at 31 December 2014 the authorized capital of the Company is completely paid for and consists:

|  |  |  |
| --- | --- | --- |
| **Name** | **Total quantity (pc.)** | **Nominal value**  **(thous. RUB)** |
| Common stocks | 42 217 941 468 | 4 221 794 |
| Preferred stocks | - | - |
| **Total** | **42 217 941 468** | **4 221 794** |

The base earnings per share reflect a part of profit of the accounting period, which can be potentially distributed among shareholders – owners of common stocks. It is calculated as the relation of base profit for the accounting year to the weighted average quantity of common stocks in circulation within the accounting year. The base profit is equal to net profit of the accounting year. Earnings per share, diluted earnings per share are included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 2.2.

* 1. Cash flow statement

As at 31.12.2014 there are no funds on deposits.

In the Cash Flow Statement, as collapsed, indirect taxes are reflected from buyers and customers, payments to suppliers and contractors and payments to the budget of the Russian Federation or the reimbursement out of it.

VAT is an indirect tax. The collapsed result on VAT in the amount of 1 232 039 thous. RUB is reflected in line 4129 «Other payments»:

- VAT amount as received from buyers and customers is 13 502 872 thous. RUB (lines 4110,4210)

- VAT amount as paid to suppliers and contractors and to the budget of the Russian Federation is 14 734 911 thous. RUB (lines 4120, 4220, 4320).

Taxes are reflected in line 4129 «Other payments».

Information on cash flow from operating, investing and financing activities of each reportable segment is included in Appendix # 1.

* 1. Profit/loss of previous years

In accounting IDGC of Centre for previous reporting periods identified and recorded in 2014 as earnings from previous years income in the amount of 805 111 thous. RUB, including:

* 652 008  thous. RUB – increase in income in previous periods for electricity transmission, contractual compensation of electricity losses in connection with the settlement of disputes, as well as on the basis of decisions of arbitration courts (out of them the sum of 574 515 thous. RUB refers to OJSC "NLMK");
* 23 913 thous. RUB – recorded revenues arising from the reflection of the non-contractual acts of consumption;
* 129 190  thous. RUB – other income.

In accounting IDGC of Centre for previous reporting periods identified and recorded in 2014 as losses of previous years the costs in the amount of 2 233 014 thous. RUB, including:

* 991 352  thous. RUB – decrease in revenues reflected in accounting of IDGC of Centre for electricity transmission contracts in connection with the settlement of disputes, as well as on the basis of decisions of arbitration courts (out of them the sum of 765 443 thous. RUB refers to OJSC "NLMK");
* 241 662 thous. RUB – other costs.
  1. Other information

3.18.1. The information on the received provisions of the company’s obligations and payments.

The information on the received provisions of obligations of IDGC of Centre is included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.8.

3.18.2. Assessment of the financial position of the Company

|  |  |  |
| --- | --- | --- |
| **Indicator** | **31.12.2014** | **31.12.2013** |
| Current liquidity ratio | 0,96 | 1,18 |
| Acid ratio | 0,87 | 1,04 |
| Equity-assets ratio | 0,50 | 0,51 |

One of the indicators of the company’s financial standing is its solvency and liquidity, i.e. its ability to pay back its obligations.

Following the results of 2014 the value of the current liquidity ratio was 0.96. Normative value of the ratio is considered equal to or greater than 1. Exceeding as of 31.12.2014 was due to the transfer of the loans maturing before the end of 2015 from long-term to short-term.

Acid ratio reflects the Company's ability to pay back its current obligations in the shortest period of time. The normal value of the ratio is more than 0.8. Following the results of 2014 this ratio is within normal values and is 0,87.

Liquidity ratios are within normal values, indicating the ability of the company to pay back its current liabilities from current assets.

Equity-assets ratio determines the share of the company’s assets financed by equity. The higher the ratio is, the more financially stable and independent from external creditors the enterprise is. The generally accepted standard value for this indicator is. Following the results of financial and economic activity of IDGC of Centre for 2014 the equity-assets ratio did not change significantly.

3.18.3. Information about disposal of a type of activity

According to Orders of the Ministry of Energy of the Russian Federation from 22.01.2014 №15, from 19.03.2014 №116, from 19.03.2014 №117, from 15.05.2014 №269, from 23.05.2014 №311, from 27.10.2014 №780 the status of a supplier of last resort with respect to the service area of the supplier of last resort of IDGC of Centre:

* from 01.02.2014 in the Orel region was assigned to LLC "INTER RAO-Orlovsky energosbyt";
* from 01.04.2014 in the Tver region was assigned to OJSC "AtomEnergoSbyt";
* from 01.04.2014 in the Kursk region was assigned to OJSC "AtomEnergoSbyt";
* from 01.06.2014 in the Bryansk region was assigned to LLC "TEK-Energo";
* from 01.06.2014 in the Smolensk region was assigned to OJSC "AtomEnergoSbyt";
* from 01.12.2014 in the Tver region with respect to the second service area of IDGC of Centre was assigned to ZAO "Transservisenergo".

The profit and loss statement reflects proceeds from the sale of electric energy and power, including the transmission component of electric energy and power.

For 2014 from the activities of the supplier of last resort the cash was received from the sale of electric energy and power in the amount of 14 029 749 thous. RUB (without VAT), payments were made for the purchase of electric energy and power in the amount of 10 127 989 thous. RUB (without VAT).

* 1. Policy concerning borrowed funds, managements of risks

In case of appearance of one or several of the above mentioned risks IDGC of Centre will take all possible measures on minimisation of negative consequences. Possible events for Company actions are developed for neutralisation of a part of risks when this or that risk occurs. However, it is necessary to note that preliminary development of measures adequate to corresponding events is complicated by uncertainty of development of a situation, and parametres of conducted events will depend in a greater degree on features of the created situation in each specific case. IDGC of Centre cannot warrant that the actions directed on overcoming of arisen negative changes, can lead to the situation correction as the described factors are beyond the Company’s control.

***Risks associated with changes in foreign exchange rates***

Companies conducting foreign trade are subject to this risk. It manifests itself in the shortfall of income provided by the direct effects of changes in foreign exchange rate used in foreign operations, the expected cash flows from these transactions.

The Company sells services on the domestic market of the Russian Federation with settlements in rubles (the Russian Federation currency), in connection with what it is not exposed to changes in foreign currency exchange rates. It should be noted that the Company, implementing its investment program, can purchase products from foreign suppliers, whose cost of services depends on exchange rate fluctuations. In this regard, we can say that for the Company the foreign exchange risk is minimal.

***Risks associated with changes in interest rates***

Given the situation in the financial markets, the risk of changing the rates is estimated by the Company as medium.

For the purposes of leveling the risk of increased interest rates on loans the Company is interacting with credit organizations working with budgetary funds (state, federal subjects, municipal), and also carries out public borrowing through bond placement.

The policy of the Company concerning external loans is regulated by the Regulation on credit policy of IDGC of Centre, confirmed by the decision of the Board of Directors of the Company (Minutes # 23/13 dated September 30, 2013).   This Regulation determines the order of estimation of financial stability and credit quality of the Company and is the instrument of calculation of value limit of a debt position of the Company and estimation of possibility of attraction of investment credits and loans within the limits of business planning.

***Risks connected with state regulation of tariffs for services rendered***

Transmission of electric energy through distribution grids and also grid connection to electric networks are regulated by the State. Thus, adoption by the regulatory bodies of tariff rates for services of the Company directly influences the amount of received proceeds.

The Government of the Russian Federation realizes the policy of containment of increase of tariffs on product and services of natural monopolies – gradual reduction of rates of payment for grid connection was provided in the plan of measures approved by Resolution of the Government of 30.06.2013 № 1144-r. Increase of tariffs for electricity transmission is limited with a rate, established by the forecast of socio-economic development of the Russian Federation for the relevant year (hereinafter - the Forecast) or specific scenario conditions of the economy of the Russian Federation functioning, approved by the Government.

Limiting the growth of tariffs for 2015 according to the Forecast is 7.5% from July 2015, or 3.8% on an annualized basis. In order to minimize "shortfall in income" from the implementation of Federal Law №308 on the basis of regulation in 2015 the tariffs for electricity transmission services for Belgorod and Kursk regions were approved in excess of the Forecast of 2%.

Implementation of Federal Law № 308-FZ in the subsequent years (until 01.07.2017) may result in deterioration of the financial position and reduction of the investment program of the Company.

The following measures are applied to miminize the risks:

1. Work with tariffs regulatory authorities of RF subjects to ensure compensation "shortfall in income" of grid companies, arising from the implementation of Federal Law № 308-FZ, by providing additionally to the Forecast of the Ministry of Economic Development the increase of tariffs for other customers.

2. On an ongoing basis, the work on the economic justification of costs included in rates, including for inclusion of "shortfall in income" of previous periods into rates.

3. Regular work on reduction of costs and investment program optimization is conducted.

4. Implementation together with the Federal Service on Tariffs and tariff regulation bodies of subjects of the Russian Federation of activities to amend the existing legislation of the Russian Federation in pricing for natural monopolies to take the interests of distribution grid companies in setting tariffs for electricity at the retail market into account.

***Risks of receiving less income, connected with payment discipline of retailers or decrease in the level of power consumption***

The main buyers of IDGC of Centre’s services are retail companies, which carry out delivery of electric energy to end users. The main risk connected with buyers is the probability of increase in the debt receivable in connection with infringement of payment discipline by end users of electric energy and occurrence of necessity of attraction of additional credit resources. There is risk of insufficiency of money resources on the issuer's accounts in connection with presence of time cash breaks between reception of money resources from the marketing company and necessity of financing of current operations. The probability of this risk occurrence is medium. For minimization of the probability of the given risk and its consequences, the management conducts work on the well-thought credit policy, on management of debt receivable directed to optimization of its amount and collection of debt. The Company also performs active claim-related work on debt collection, implements policy of conclusion of direct contracts with electric power consumers.

As the proceeds of IDGC of Centre are influenced by dynamics of power consumption of regions of the Company’s service area, there is a risk of receiving less income than one is due in connection with decrease in electric power consumption by separate large consumers in relation to the target level. At present this risk probability is estimated as low, with consequences for the Company’s activity from medium to critical.

***Risks connected with shortage of qualified specialists in the industry***

At present inflow of qualified production personnel in the industry is reducing. Keeping the current reduction rates the Company may confront with shortage of qualified production personnel in the regions of the service area. This risk is estimated as average within the long-term period with consequences for the Company’s activity varying from insignificant up to medium. For the purposes of minimization of this risk probability the Company performs the following measures:

- support of industrial secondary special and higher industrial institutions in the regions of the service area, creation of financial support of implementation of the program on training of specialists in the field of electric power with subsequent guaranteed employment of trained specialists;

- implementation of programs intended to increase motivation and reduction of volumes of staff turnover, implementation of non-material motivation methods.

## *Country risks*

Stability of the Russian economy is largely dependent on the progress of economic reforms, development of the legal, tax and regulatory frameworks as well as the effectiveness of the measures of the Government of the Russian Federation in the field of finance and monetary policy.

At present, the political situation in the country is relatively stable, while at the same time, the Russian economy is vulnerable to the negative effects due to the significant reduction in crude oil prices, a significant devaluation of the Russian ruble, as well as the sanctions imposed on Russia by some countries.

In spite of the stabilization measures taken by the Government of the Russian Federation in order to ensure liquidity and refinancing for Russian banks and companies, there is still uncertainty regarding the access to capital and cost of capital for the Company and its counterparties, which could affect the financial position, results of operations and economic prospects of the Company. Instability in the capital markets may lead to significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia.

In general, the Company may not have a significant impact on the economic situation in the country. However, in the case of a negative impact of changes in the situation in the country or region of the Russian Federation, in which the Company operates, the Company will take all measures to reduce the adverse effects on the financial position and results of operations of the Company.

The probability of military conflicts and introduction of state of emergency in the country and in the regions of the service area of the Company is insignificant to consider these risks as circumstances capable to significantly affect the Company’s activity. To prevent strikes the Company creates favourable conditions of work and fulfills its obligations to its employees. To minimize the risk of terrorist attacks the Company has taken additional measures to ensure security in the enterprise.

Risks, associated with the geographical features of the region in which the Company operates, including increased risk of natural disasters, possible interruption of transportation due to remoteness and inaccessibility, are assessed as insignificant.

* 1. Information disclosure according to Federal law #261 from 23.11.09 «About energy conservation and increase of energy efficiency and modification of some legislative acts of the Russian Federation»

According to Law № 261-FZ, the Company is guided in its work with the legal documents of the Russian Federation in the field of energy conservation and energy efficiency in the implementation of regulated and other activities.

In accordance with the RF Government Resolution of 15.05.2010, № 340 "On the procedure of establishing requirements for programs in the area of energy conservation and energy efficiency of organizations carrying out regulated activities" the program of energy conservation and energy efficiency of IDGC of Centre was approved, which includes the following indicators:

* effect of reducing losses (million KWh);
* numerical value of savings (ton of reference fuel);
* economic effect (mln RUB, without VAT);
* total costs (mln RUB, without VAT).

In the course of economic activities IDGC of Centre consumes for its economic activities electric power, heat energy and fuel: petrol, diesel and gas. In 2014 for its own needs it consumed electricity in the amount of 305 980 thous. RUB, heat energy in the amount of 68 046 thous. RUB, as well as the fuel: (gasoline, diesel, gas) in the amount of 662 785 thous. RUB.

* 1. Information disclosure on the environmental activities of the Company

The costs of environmental protection of IDGC of Centre for 2014 were 10 859,20 thous. RUB. The fee for a negative impact on the environment in 2014 was 6 701,99 thous. RUB.

In 2014, in order to reduce negative impact on the environment and compliance with SanPiN 2.1.7.1322-03 "Hygienic requirements for the placement and disposal of production and consumption waste" in IDGC of Centre’s branches specialized containers for waste collection were purchased, the arrangement of sites for temporary storage (stockpiling) of waste and improvement of surrounding area was performed. Constant monitoring of the accumulation of extremely hazardous waste was performed - used mercury lamps.

Based on SanPiN 2.2.1/2.1.1.1200-03 "Sanitary protection zones and sanitary classification of enterprises, buildings and other facilities" an instrumental control of emissions at the boundary of the sanitary-protection zones was performed. Based on the studies of air at the boundary of the sanitary-protection zones no excess of allowable concentration levels was detected.

Pursuant to Federal Law № 7-FZ of 10.01.2002 instrumental monitoring of compliance with established standards of maximum permissible emissions was arranged.

To comply with Federal Law № 89-FZ of 24.06.1998 "On the Production and Consumption Waste" and creating an analytical framework based on instrumental measurements and laboratory studies for monitoring of compliance with established MPE, MPD and monitoring in temporary storage (accumulation) waste was organized and performed within:

* Air control of working zone in the temporary storage of waste;
* Monitoring the level of soil contamination;
* Laboratory analysis of microbiological, radiological and chemical parameters of groundwater and effluent.

As part of the implementation of its environmental policy in 2014 substation equipment was maintained and repaired, including replacement of oil switches with vacuum and overhaul of oil circuit breakers. Oil receivers of transformers, drainage devices were also repaired and gravel bedding under them was replaced.

In two branches the work on decommissioning and disposal of equipment containing PCBs, as well as decommissioning of out-dated motor vehicles was performed.

Polychlorinated biphenyls (PCBs) are a group of high-risk to humans and the environment compounds for which in recent years considerable efforts to control both at the national and international level have been made. PCBs are included in the list of twelve priority POPs, which under the Stockholm Convention "should be banned for use, their production should be stopped, and all stocks must be destroyed".

* 1. Events after the reporting date

There were no significant events after the reporting date.

**Litigation**

There are no decisions on litigation, which entered into force in 2015, before signing the Company's accounting statements.

**General Director O.Y. Isaev**

**Chief Accountant L.A. Sklyarova**

**02 March 2015**

1. A legal entity which is a subsidiary of the same company, which is a subsidiary of the Company itself [↑](#footnote-ref-1)
2. A legal entity which is a subsidiary of the Company [↑](#footnote-ref-2)
3. The parent company of the Company [↑](#footnote-ref-3)
4. [↑](#footnote-ref-4)