

**PJSC IDGC OF NORTHERN CAUCASUS
CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2015
(UNAUDITED)**

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PJSC IDGC of North Caucasus
Consolidated Interim Statement of Financial Position as at 30 June 2015
(Unaudited)
(thousands of Russian Roubles, unless otherwise stated)

	Notes	30 June 2015	30 June 2014 (restated)	1 January 2014 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	6	16,708,991	16,931,275	19,184,368
Intangible assets		86,306	86,386	77,500
Accounts receivables and loans issued		418,966	391,365	456,062
Deferred tax assets		1,932,754	1,584,405	982,841
Other non-current assets		1,076,194	1,061,789	1,036,601
Total non-current assets		20,223,211	20,055,220	21,737,372
Current assets				
Inventories		613,665	747,126	749,091
Income tax receivable		14,388	1,721	197
Trade and other receivables		2,435,044	3,086,186	3,151,625
Prepayments for current assets		25,458	18,139	51,784
Cash and cash equivalents		1,630,186	1,858,201	1,975,262
Non-current assets held for sale		7,191	10,539	14,009
Total current assets		4,725,932	5,721,912	5,941,968
TOTAL ASSETS		24,949,143	25,777,132	27,679,340
EQUITY AND LIABILITIES				
Equity				
Share capital	7	154,562	154,562	154,562
Additional paid in capital		5,052,502	5,052,502	5,052,502
Reserves		(206,024)	(142,755)	(122,725)
Retained (loss)/earnings		(7,826,302)	(4,878,846)	3,641,574
Total equity		(2,825,262)	185,463	8,725,913
Non-current liabilities				
Loans and borrowings	8	3,359,371	5,522,900	4,533,217
Trade and other payables		460,211	476,365	306,368
Employee benefits		732,289	632,287	581,614
Total non-current liabilities		4,551,871	6,631,552	5,421,199
Current liabilities				
Loans and borrowings	8	5,254,990	2,054,955	2,041,089
Trade and other payables		14,588,206	13,912,184	10,733,468
Provisions	9	964,494	2,031,806	428,656
Other taxes payable		2,204,566	705,412	211,744
Current tax liabilities		210,278	255,760	117,271
Total current liabilities		23,222,534	18,960,117	13,532,228
Total liabilities		27,774,405	25,591,669	18,953,427
TOTAL EQUITY AND LIABILITIES		24,949,143	25,777,132	27,679,340

These Consolidated Interim Condensed Financial Statements were approved by management on 26 August 2015 and were signed on its behalf by:

General Director



U.V. Zaytsev

Chief accountant



N.B. Larionova

The consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 25.

PJSC IDGC of Northern Caucasus
Consolidated Interim Statement of Profit or Loss or Other Comprehensive Income
for the six months ended 30 June 2015
(Unaudited)
(thousands of Russian Roubles, unless otherwise stated)

		For the six months ended	
	Notes	30 June 2015	30 June 2014
			(restated)
Revenue	10	7,620,000	6,963,873
Operating expenses	11	(10,862,852)	(9,555,346)
Other income		68,481	70,989
Operating loss		(3,174,371)	(2,520,484)
Finance income		119,372	118,030
Finance costs		(229,615)	(114,489)
Loss before income tax		(3,284,614)	(2,516,943)
Income tax benefit		337,158	74,360
Loss for the period		(2,947,456)	(2,442,583)
Other comprehensive income/(loss)			
<i>Items that will never be reclassified to profit or loss</i>			
Remeasurement of defined benefit liability		(62,228)	38,419
Related income tax		(1,041)	(7,684)
<i>Total items that will never be reclassified to profit or loss</i>		<i>(63,269)</i>	<i>30,735</i>
Other comprehensive (loss)/income, net of income tax		(63,269)	30,735
Total comprehensive loss for the period		(3,010,725)	(2,411,848)
Loss per share - basic and diluted (in RUB)	7	(19.07)	(15.80)

PJSC IDGC of Northern Caucasus
Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2015
(Unaudited)
(thousands of Russian Roubles, unless otherwise stated)

		For the six months ended	
	Note	30 June 2015	30 June 2014
			(restated)
OPERATING ACTIVITIES:			
Loss before income tax		(3,284,614)	(2,516,943)
<i>Adjustments for:</i>			
Depreciation and amortisation	11	734,930	760,552
Allowance for impairment of accounts receivable	11	1,843,095	2,258,649
Allowance for obsolescence of inventories		(5,846)	1,255
Impairment loss on property, plant and equipment	11	56,848	3,333
Provision for unused vacation		(9,177)	50,745
Provision for legal processes	9,11	467,826	174,835
Finance income		(119,372)	(118,030)
Finance costs		229,615	114,489
Gain on disposal of property, plant and equipment		(20,509)	(50)
Operating profit before working capital changes		(107,204)	782,835
Change in accounts receivable		(1,143,902)	(1,780,881)
Change in prepayments for current assets		(7,362)	22,990
Change in inventories		150,887	(52,319)
Change in financial assets related to the employee benefit fund		3,761	1,863
Change in accounts payable		(673,218)	1,423,785
Change in employee benefits		1,091	1,502
Change in other taxes payable		1,499,154	347,175
Cash flows (used in)/ from operations before income tax and interest paid		(276,793)	692,950
Interest paid		(394,977)	(211,833)
Income tax paid in cash		(70,381)	(240,526)
Net cash flows (used in)/ from operating activities		(742,151)	240,591
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(596,580)	(515,116)
Proceeds from disposal of property, plant and equipment		16,000	45
Acquisition of intangible assets		(19,538)	(4,208)
Loans issued		-	(91,665)
Interest received		54,882	42,506
Net cash flows used in investing activities		(545,236)	(568,438)
FINANCING ACTIVITIES:			
Proceeds of loans and borrowings		1,062,211	482,399
Dividends paid		(14)	(38)
Repayment of finance lease liabilities		(2,825)	(2,229)
Net cash flows from financing activities		1,059,372	480,132
Net (decrease)/ increase in cash and cash equivalents		(228,015)	152,285
Cash and cash equivalents at the beginning of the period		1,858,201	1,975,262
Cash and cash equivalents at the end of the period		1,630,186	2,127,547

PJSC IDGC of Northern Caucasus
Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2015
(Unaudited)
(thousands of Russian Roubles, unless otherwise stated)

	Share capital	Additional paid in capital	Reserves	Retained earnings	Total equity
Balance at 1 January 2014 (previously reported)	154,562	5,052,502	(122,725)	3,689,148	8,773,487
<i>Changes (net of income tax) (Note 2(e))</i>	-	-	-	(47,574)	(47,574)
Balance at 1 January 2014 (restated)	154,562	5,052,502	(122,725)	3,641,574	8,725,913
Loss for the period	-	-	-	(2,442,583)	(2,442,583)
Remeasurement of defined post-employment benefit liability	-	-	38,419	-	38,419
Related income tax	-	-	(7,684)	-	(7,684)
Total comprehensive loss for the period	-	-	30,735	(2,442,583)	(2,411,848)
Transactions with owners, recorded directly in equity	-	-	-	(134,392)	(134,392)
Dividends	-	-	-	(134,392)	(134,392)
Total transactions with owners, recorded directly in equity	-	-	-	(134,392)	(134,392)
Balance at 30 June 2014 (restated)	154,562	5,052,502	(91,990)	1,064,599	6,179,673
Balance at 1 January 2015	154,562	5,052,502	(142,755)	(4,878,846)	185,463
Loss for the period	-	-	-	(2,947,456)	(2,947,456)
Remeasurement of defined post-employment benefit liability	-	-	(62,228)	-	(62,228)
Related income tax	-	-	(1,041)	-	(1,041)
Total comprehensive loss for the period	-	-	(63,269)	(2,947,456)	(3,010,725)
Balance at 30 June 2015	154,562	5,052,502	(206,024)	(7,826,302)	(2,825,262)

Note 1. Background

(a) The Group and its operations

Due to changes in the Civil Code of the Russian at the Annual General Shareholders' Meeting held on 11 June 2015 the changes of organizational and legal form in the Charter of the Company were approved. Open Joint Stock Company Interregional Distribution Company of Northern Caucasus was changed to Public Joint Stock Company Interregional Distribution Company of Northern Caucasus.

Public Joint Stock Company Interregional Distribution Grid Company of Northern Caucasus (hereafter, the "Company" or "PJSC IDGC of Northern Caucasus", previously "OJSC IDGC of Northern Caucasus") and its subsidiaries (together referred to as the "Group") comprise joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 14 June 2006 based on Resolution no. 223 of 14 June 2006 of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES").

On 1 April 2008 the reorganization of the Company was completed through the merger of the grid companies of JSC Stavropolenergo, JSC Dagestenergo, and JSC Caucasian Energy Management Company.

The Company's registered office is 18, Podstancionnaya Street, Energetik village, Pyatigorsk, Stavropol region, the Russian Federation, 357506.

The Group consists of the Company and its subsidiaries:

Name	Ownership, %	
	30 June 2015	31 December 2014
JSC Dagestenergo	100.0	100.0
JSC Grid Company of Dagestan/ JSC Energoservice	100.0	100.0

On 3 April 2015 due to changes in the Charter of JSC Energoservice the name and organisational and legal form was changed to Joint Stock Company Grid Company of Dagestan.

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

As at 30 June 2015 the Russian Government owned 86.32% of the voting ordinary shares and 7.01% of the preference shares of PJSC ROSSETI (previously JSC Rugridds), which in turn owned 92.00% of the Company.

(b) Relations with the state and regulation of the Group

In accordance with legislation, the Group's tariffs are controlled by the Federal Service on Tariffs and by the Executive Bodies of subjects of the Russian Federation in the field of state regulation of tariffs.

As of 21 July 2015 the Federal Service on Tariffs was abolished and its powers were transferred to the Federal Antimonopoly Service.

(c) Russian business environment

For the six months ended 30 June 2015 and in 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. In December 2014, the Rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%. As on 30 June 2015 the key rate was 11.5%. 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.

Note 2. Basis of preparation

(a) Statement of compliance

These consolidated interim condensed financial statements (hereinafter 'financial statements') have been prepared in accordance with International Financial Reporting Standards ('IFRSs') pursuant to Federal Law No.208-FZ *On consolidated financial reporting*.

(b) Basis of measurement

The consolidated interim condensed financial statements are prepared on the historical cost basis except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2010.

(c) Functional and presentation currency

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

(d) Going concern

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

As at 30 June 2015 the Group had a net working capital deficit of RUB 18,496,602 thousand (as at 31 December 2014: RUB 13,238,205 thousand), including a net working capital deficit attributable to JSC Dageenergaset, the Company's subsidiary, in the amount of RUB 11,833,417 thousand as at 30 June 2015 (as at 31 December 2014: RUB 10,634,018 thousand).

The net loss of the Group of RUB 2,947,456 thousand for the six months, ended 30 June 2015 (for the six months 2014, ended 30 June 2014: RUB 2,442,583 thousand), including attributable to carrying amounts of JSC Dageenergaset of RUB 1,421,180 thousand (for the six months, ended 30 June 2014: RUB 1,894,521 thousand).

Of the accounts payable, as at 30 June 2015 RUB 6,844,086 thousand (as at 31 December 2014: RUB 6,489,079 thousand) is due to JSC Dagestan Power Sales Company (hereinafter, JSC DPSC), the subsidiary of PJSC ROSSETI, and hence a related party. In 2014 PJSC DPSC filed a court claim against JSC Dageenergaset to recover accounts payable for the compensation for electricity losses. JSC Dageenergaset filed a counter-claim against PJSC DPSC to recover the electricity transmission services payables (Note 14(e)).

JSC Dageenergaset was involved in certain legal proceedings concerning recognizing it as a bankrupt. As on 30 June 2015 the Arbitration court of the Dagestan Republic dismissed the claims of creditors to recognize JSC Dageenergaset as a bankrupt.

There are current judicial proceedings in regard to tax disputes to JSC Dageenergaset. As at 30 June 2015 and at 31 December 2014 in accordance with tax authorities decision settlement accounts were arrested. At the same time in 2014 and 2015 reporting periods JSC Dageenergaset continued its operating activities. As of 1 July 2015 the transmission of electricity on the territory of the Dagestan Republic was carried out by JSC Dagestan Grid Company, another subsidiary of the Company.

Management monitors maturities of the estimated cash flows from operating and financing activities and manages current liquidity using open credit lines. As at 30 June 2015 the Group had unused credit lines in the amount of RUB 1,622,492 thousand (as at 31 December 2014: RUB 2,684,702 thousand). Management considers that the Group has the ability to raise additional loans and borrowings.

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

Management believes that the Group has adequate resources to continue operation activities and to repay current liabilities. Management also believes that measures taken would be able to improve finance statements of the Group and there is no significant uncertainty regarding the Group's ability to continue as going concern in the foreseeable future.

Use of judgments, estimates and assumptions

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.

In preparing these consolidated interim condensed financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2014. The key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2014.

(e) Presentation of changed data, changes in accounting approaches and correction of errors

Changes in the approach to recognizing revenue from connection agreements

The Group revised its approach to recognizing revenue from connection agreements for long-cycle projects to connect a consumer to a power grid where constructing a part of the grid (a new fixed asset) is required. In 2014, the Group recognized revenue from such agreements based on incurred and capitalized construction costs added to the cost basis of the fixed asset. The Group's analysis established that such connection work often involves a high level of uncertainty about the final construction costs, project completion times and final connection charge that is subject to approval by the regulating authorities after the completion of the project and may significantly affect the initial costs under the agreement. According to the historical analysis, the Group has limited ability to accurately estimate revenue from connection agreements and the project status at the end of the reporting period due to these factors that the Group cannot influence. Thus, the Group concluded that revenue from connection agreements is mostly recognized at the time the delivery and acceptance certificate is signed with the final connection charge approved by the regulatory authorities and connection technical due diligence completed.

The change in the accounting approach to connection agreements was recorded retrospectively, with the Group restating the data as at 31 December 2014, as at 1 January 2015 and for the six month 2015.

The accounting approach to settlements under the technical scope assignment agreement with

PJSC FGC UES

When preparing the financial statements for the year ended 31 December 2014, the Group identified instances of incorrect recognition of unsettled payments under the technical scope assignment agreement with PJSC FGC UES (previously OJSC FGC UES). Receivables for services provided by the Group and payables (advances received) were presented in the financial statements net for the period from completion of work by the Group until the acceptance of work by PJSC FGC UES required under the agreement. Due to a dispute between the Group and PJSC FGC UES under this agreement, the Group should not have recorded receivables in the amount of RUB 787,319 thousand net within the advances received until the completion of work and the signing of the delivery and acceptance certificate by PJSC FGC UES. Since no consensus was reached under this agreement (including as at the reporting date) with PJSC FGC UES not confirming any full settlement under the agreement, the Group concluded that receivables and payables had been recorded incorrectly. Given that the Group did not expect any full settlement under the agreement in 2013 and 2014, the receivables were recorded as long-term receivables as at 31 December 2013 and 1 January 2013 within other non-current assets. The payables represent short-term payables, as the obligations were to be performed by 1 January 2013 under the agreement and should be treated as short-term payables until full settlement.

Reclassification

Certain comparative amounts have been reclassified to conform to the current year's presentation.

As at 31 December 2014, the Group changed the grouping and substance of items related to revenue from identified unsanctioned consumption, certain operating expenses and other operating income, since the Group believes that the presentation format used for the 2014 financial statements is more appropriate and allows its users to analyze trends for projecting and economic decision-making purposes.

The Group reclassified the following comparatives for the six months ended 30 June 2014 based on the current year data:

- operating expenses: operating expense items disclosed in the Notes were adjusted to changes in the substance of such expenses;
- other income in the amount of RUB 943 thousand for the period was reclassified from operating expenses to other operating income.

The table below shows the quantitative information about the impact of the above changes on the Group's consolidated statement of financial position as at 1 January 2014 and 30 June 2014 and its consolidated interim condensed statement of profit or loss and other comprehensive income for the six month ended 30 June 2014.

The impact on the consolidated statement of financial position as at 1 January 2014:

	1 January 2014 (previously reported)	Recalculation effect of connection to the electricity network	The effect of reflection AR & AR on PPE of PJSC FGC UES	1 January 2014 (restated)
ASSETS				
Non-current assets				
Deferred tax assets	970,948	11,893	982,841	982,841
Other non-current assets	249,282	787,319	1,036,601	1,036,601
Total non-current assets	20,938,160	799,212	21,737,372	21,737,372
Current assets				
Trade and other receivables	3,290,484	(138,859)	3,151,625	3,151,625
Total current assets	6,080,827	(138,859)	5,941,968	5,941,968
TOTAL ASSETS	27,018,987	660,353	27,679,340	27,679,340
EQUITY AND LIABILITIES				
Equity				
Retained earnings	3,689,148	(47,574)	3,641,574	3,641,574
Total equity	8,773,487	(47,574)	8,725,913	8,725,913
Current liabilities				
Trade and other payables	9,905,442	828,026	10,733,468	10,733,468
Other taxes payable	331,843	(120,099)	211,744	211,744
Total current liabilities	12,824,301	707,927	13,532,228	13,532,228
Total liabilities	18,245,500	707,927	18,953,427	18,953,427
TOTAL EQUITY AND LIABILITIES	27,018,987	660,353	27,679,340	27,679,340

The impact on the consolidated statement of financial position as at 30 June 2014:

	30 June 2014 (previously reported)	Recalculation effect of connection to the electricity network	The effect of reflection AR & AR on PPE of PJSC FGC UES	30 June 2014 (restated)
ASSETS				
Non-current assets				
Deferred tax assets	1,174,545	11,893	-	1,186,438
Other non-current assets	290,136	-	787,319	1,077,455
Total non-current assets	21,230,417	11,893	787,319	22,029,629
Current assets				
Trade and other receivables	2,853,925	-	(120,099)	2,733,826
Total current assets	5,822,538	-	(120,099)	5,702,439
TOTAL ASSETS	27,052,955	11,893	667,220	27,732,068
EQUITY AND LIABILITIES				
Equity				
Retained earnings	1,112,173	(47,574)	-	1,064,599
Total equity	6,227,247	(47,574)	-	6,179,673
Current liabilities				
Trade and other payables	11,593,596	59,467	787,319	12,440,382
Other taxes payable	679,018	-	(120,099)	558,919
Total current liabilities	14,903,473	59,467	667,220	15,630,160
Total liabilities	20,825,708	59,467	667,220	21,552,395
TOTAL EQUITY AND LIABILITIES	27,052,955	11,893	667,220	27,732,068

The impact on the consolidated statement of profit of loss and other comprehensive income for the six month ended 30 June 2014:

	For the six month ended 30 June 2014 (previously reported)	Recalculation effect	For the year ended 30 June 2014 (restated)
Operating expenses	(9 554,466)	(880)	(9,555,346)
Other operating income, net	70,046	943	70,989
Operating loss	(2,520,547)	63	(2,520,484)
Finance costs	(114,426)	(63)	(114,489)

Note 3. Significant accounting policies

In preparing these consolidated interim condensed financial statements, the methods for determination of fair values were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2014, except for the changes related to the application of new standards and interpretations in force from 1 January 2015.

New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June 2015, and have not been applied in preparing these consolidated interim financial statements. The Group has not yet analysed the likely impact of the new standards on its financial position or performance. The Group

plans to adopt the following pronouncements when they become effective:

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

The impact of the new standards, interpretations and amendments

In 2015 the Group applied several other new standards and amendments for the first time. However, they do not significantly impact the consolidated financial statements:

- *Defined Benefit Plans: Employee Contributions* – Amendments to IAS 19 *Employee Benefits*. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- Various improvements to IFRSs which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 January 2015.

Note 4. Determination of fair value

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

In preparing these consolidated interim condensed financial statements, the methods for determination of fair values were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2014.

Note 5. Operating segments

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

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

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

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

- Transmission Segments: Dagestan, North Ossetia-Alania, Stavropol region, Kabardino-Balkaria and Karachaevo-Cherkessia Republics, Republic Ingushetia - the main activity of which is the provision of electricity transmission and distribution services within the Russian Federation;
- Other includes operation of JSC Grid Company of Dagestan (earlier JSC Energoservice) which doesn't meet any of the quantitative thresholds for determining reportable segments.

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

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

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

(i) **Information about reportable segments**

For the six months ended 30 June 2015

	Transmission Segments						Total
	Stavropol region	Dagestan Republic	North Ossetia-Alania	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	Ingushetia	
Revenue:							
Revenue from external counterparties	3,389,469	1,364,946	940,835	834,883	687,236	365,207	7,582,576
Inter-segment revenue	179	676,026	-	-	-	-	676,469
Total segment revenue	3,389,648	2,040,972	940,835	834,883	687,236	365,207	8,259,045
Including:							
Electricity transmission	3,355,514	1,757,903	935,465	831,434	684,542	364,245	7,929,103
Connection to the electricity network	15,395	690	419	1,555	415	339	18,813
Other revenue	18,739	282,379	4,951	1,894	2,279	623	311,129
Finance income	35,399	5,532	9,904	8,887	7,307	3,822	70,851
Finance costs	(152,812)	(27,486)	(42,789)	(38,121)	(31,612)	(16,146)	(308,966)
Depreciation	(380,372)	(246,215)	(122,163)	(101,420)	(95,676)	(42,251)	(988,388)
Loss before income tax	(177,620)	(3,250,560)	(1,055,613)	(179,971)	(16,585)	(227,663)	(4,912,265)

For the six months ended 30 June 2014

	Transmission Segments					Total
	Stavropol region	Dagestan Republic	North Ossetia-Alania	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	
Revenue:						
Revenue from external counterparties	3,218,443	1,181,702	758,581	826,138	671,971	6,927,247
Inter-segment revenue	351	277,612	-	-	-	277,963
Total segment revenue	3,218,794	1,459,314	758,581	826,138	671,971	7,205,210
Including:						
<i>Electricity transmission</i>	3,163,194	1,176,505	753,251	804,190	669,491	6,836,593
<i>Connection to the electricity network</i>	35,859	1,806	769	19,711	781	59,211
<i>Other revenue</i>	19,741	281,003	4,561	2,237	1,699	309,406
Finance income	40,789	-	7,925	8,516	7,244	67,451
Finance costs	(49,162)	(11,892)	(29,533)	(27,688)	(39,380)	(161,410)
Depreciation	(349,615)	(247,842)	(82,011)	(107,119)	(114,025)	(925,555)
Profit / (loss) before income tax	114,019	(2,299,226)	(524,291)	(143,157)	(11,171)	(3,220,882)

As at 30 June 2015:

	Transmission Segments						Total
	Stavropol region	Dagestan Republic	North Ossetia-Alania	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	Ingushetia	
Segment assets	8,867,382	12,176,039	3,300,276	3,037,847	2,217,228	1,662,031	31,268,154
<i>Including property, plant and equipment</i>	<i>7,631,253</i>	<i>8,004,130</i>	<i>2,105,266</i>	<i>2,400,994</i>	<i>2,074,568</i>	<i>1,242,059</i>	<i>23,459,447</i>

As at 31 December 2014:

	Transmission Segments						Total
	Stavropol region	Dagestan Republic	North Ossetia-Alania	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	Ingushetia	
Segment assets	9,515,786	11,500,615	3,748,129	3,148,484	2,314,473	1,638,047	31,872,373
<i>Including property, plant and equipment</i>	<i>7,824,021</i>	<i>8,213,453</i>	<i>2,190,042</i>	<i>2,478,981</i>	<i>2,134,796</i>	<i>1,278,392</i>	<i>24,121,215</i>

(ii) Reconciliation of reportable segment profit / (loss) before income tax

The Group performs its activities in the Russian Federation and does not have any significant revenues from foreign customers or any significant non-current assets located in foreign countries.

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

	For the six months ended	
	30 June 2015	30 June 2014
		(restated)
Total segment loss before income tax	(4,912,265)	(3,220,882)
Adjustment on property, plant and equipment	466,898	294,208
Adjustment for finance leasing	3,633	4,368
Adjustment for inventories valuation	-	(1,408)
Bad debt allowance adjustment	394,836	440,556
Reversal of accrued revenue and expenses on disagreements	1,172,328	-
Retirement benefit obligations recognition	(23,377)	15,894
Reclassified expenses for the purposes of IFRS	(306,126)	(1,421)
Discounting of long-term receivables	33,933	9,802
Discounting of long-term payables	(23,438)	(20,994)
Other adjustments	(1,598)	(1,406)
Unallocated	(89,438)	(35,660)
Loss before income tax per Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income	(3,284,614)	(2,516,943)

Note 6. Property, plant and equipment

<i>Cost</i>	Land and buildings	Transmission networks	Equipment for electricity transformation	Construction in progress	Other	Total
Balance at 1 January 2014	1,263,046	7,647,139	7,877,400	6,584,594	2,517,695	25,889,874
Additions	12,444	3,198	28,911	604,098	54,696	703,347
Transfer	9,218	101,698	34,550	(256,065)	110,599	-
Disposals	-	(65)	(71)	-	(745)	(881)
Transfer to non-current assets for sale	(283)	-	-	-	-	(283)
Balance at 30 June 2014	1,284,425	7,751,970	7,940,790	6,932,627	2,682,245	26,592,057
Balance at 1 January 2015	1,424,890	8,681,551	8,574,450	6,523,022	3,020,501	28,224,414
Additions	-	10,658	3,852	447,555	93,194	555,259
Transfer	13,160	54,046	106,889	(723,998)	549,903	-
Disposals	-	(473)	(352)	(6,886)	(12,615)	(20,326)
Transfer to non-current assets for sale	(306)	-	-	-	-	(306)
Balance at 30 June 2015	1,437,744	8,745,782	8,684,839	6,239,693	3,650,983	28,759,041

	Land and buildings	Transmission networks	Equipment for electricity transformation	Construction in progress	Other	Total
Accumulated depreciation and impairment						
Balance at 1 January 2014	(296,379)	(3,098,802)	(2,018,283)	(245,691)	(1,046,351)	(6,705,506)
Depreciation for the period	(40,339)	(242,576)	(245,499)	-	(216,208)	(744,622)
Impairment loss	-	-	-	(3,333)	-	(3,333)
Disposals	-	65	57	-	711	833
Reclassifications	-	804	-	(804)	-	-
Transfer to non-current assets for sale	86	-	-	-	-	86
Balance at 30 June 2014	(336,632)	(3,340,509)	(2,263,725)	(249,828)	(1,261,848)	(7,452,542)
Balance at 1 January 2015	(389,586)	(4,268,941)	(3,014,509)	(2,124,989)	(1,495,114)	(11,293,139)
Depreciation for the period	(41,798)	(216,784)	(234,919)	-	(221,810)	(715,311)
Impairment loss	-	-	-	(56,848)	-	(56,848)
Impairment loss transfer from construction in progress	(6,543)	-	-	375,046	(368,503)	-
Disposals	-	465	260	4,460	10,005	15,190
Transfer to non-current assets for sale	58	-	-	-	-	58
Balance at 30 June 2015	(437,869)	(4,485,260)	(3,249,168)	(1,802,331)	(2,075,422)	(12,050,050)
Net book value						
at 1 January 2014	996,667	4,548,337	5,859,117	6,338,903	1,471,344	19,184,368
at 30 June 2014	947,793	4,411,461	5,677,065	6,682,799	1,420,397	19,139,515
at 1 January 2015	1,035,304	4,412,610	5,559,941	4,398,033	1,525,387	16,931,275
at 30 June 2015	999,875	4,260,522	5,435,671	4,437,362	1,575,561	16,708,991

Note 7. Equity

Share capital

	30 June 2015	31 December 2014
Number of ordinary shares authorised, issued and fully paid	154,562,277	154,562,277
Par value (in RUB)	1.0	1.0
Total share capital (in RUB)	154,562,277	154 562,277

Dividends paid and declared

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

At the annual general meeting of shareholders of PJSC IDGC of Northern Caucasus held on 11 May 2015 the decision was made not to declare dividends the year of 2014. As at 30 June 2015 dividends payable of the Group amounted to RUB 3 776 thousand (as at 31 December 2014: RUB 3 790 thousand).

Loss per share

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

<i>In shares</i>	2015	2014
Issued shares at 1 January	154,562,277	154,562,277
Weighted average number of shares for the six months ended 30 June	154,562,277	154,562,277

	For the six months ended	
	30 June 2015	30 June 2014 (restated)
Weighted average number of ordinary shares issued	154,562,277	154,562,277
Loss attributable to the shareholders	(2,947,456)	(2,442,583)
Weighted average loss per ordinary share – basic and diluted (in RUB)	(19.07)	(15.80)

Note 8. Loans and borrowings

Non-current loans and borrowings

	Effective interest rate, %	Currency	Year of maturity	30 June 2015	31 December 2014
<i>Loans</i>					
JSC Sberbank*	7.9 – 12.41	RUB	2016-2018	2,577,510	3,015,297
JSC Gazprombank*	9.5 – 20.00	RUB	2016	774,648	2,493,541
<i>Finance lease liability</i>				7,213	14,062
Total				3,359,371	5,522,900

Current borrowings

	Effective interest rate, %	Currency	30 June 2015	31 December 2014
<i>Current portion of long term loans</i>				
JSC Sberbank*	7.9 – 12.41	RUB	1,499,998	-
JSC Gazprombank*	9.5 – 20.00	RUB	1,725,047	-
Total loans			3,225,045	-
<i>Borrowings</i>				
PJSC ROSSETI**	-	RUB	30,000	30,000
Total borrowings			30,000	30,000
<i>Promissory notes</i>				
PJSC ROSSETI**	-	RUB	1,541,035	1,541,035
PJSC FGC UES**	9.0	RUB	296,460	296,460
PJSC FGC UES**	-	RUB	125,268	125,268
Total promissory notes			1,962,763	1,962,763
<i>Interest on loans</i>			31,846	26,562
<i>Interest on promissory notes</i>			1,312	29,477
<i>Current portion of finance lease liability**</i>			4,024	6,153
Total			5,254,990	2,054,955

*- Loans from government-related entities.

** - Borrowings and promissory notes from the Parent company and its subsidiary.

For the year ended 30 June 2015 there were no any repayment of loans and principal borrowings. The Company raised RUB 1,062,211 thousand using previously open credit line.

All loans and borrowings listed above are bank borrowings with fixed interest rate.

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

As at 30 June 2015 and 31 December 2014 all loans and borrowings were unsecured.

Note 9. Provisions

	2015	2014
Balance as at 1 January	2,031,806	428,656
Provisions raised during the period	592,057	205,809
Provisions used during the period	(1,535,138)	(37,212)
Provisions reversed during the period	(124,231)	(30,974)
Balance as at 30 June	964,494	566,279

Provisions relate to legal proceedings and unsettled legal claims against the Group.

A significant decrease in the amount of provisions was the results of provision usage in the first half of 2015, which were accrued due to decisions issued by tax authorities upon the results of field tax audit and the results of VAT declarations desk tax audit in 2014 against JSC Dagenergoset for the taxes unpaid. As at 30 June 2015 the amount of RUB 814,321 thousand was due to JSC Dagenergoset (as at 31 December 2014: RUB 1,889,105 thousand).

Note 10. Revenue

	For the six months ended	
	30 June 2015	30 June 2014
Electricity transmission	7,531,857	6,836,593
Connection services	18,813	59,211
Rental income	8,583	6,844
Other revenue	60,747	61,225
Total	7,620,000	6,963,873

Note 11. Operating expenses

	For the six months ended	
	30 June 2015	30 June 2014 (restated)
Personnel costs	2,990,164	2,516,239
Purchased electricity for compensation of technological losses	2,403,417	1,898,842
Allowance for impairment of trade and other receivables	1,843,095	2,258,649
Depreciation and amortization	734,930	760,552
Electricity transmission	602,814	651,861
Provisions	467,826	174,835
Gains/losses of previous years	425,232	115,283
Raw materials and supplies	302,088	300,899
Rent	294,591	213,715
Taxes other than income tax	118,340	99,694
Electricity and heat power for own needs	66,520	58,302
Impairment loss on property, plant and equipment	56,848	3,333
Other works and production services	54,603	55,373
Security services	50,714	59,830
Management services	39,778	40,373
Repairs, maintenance and installation services	33,112	125,000
Business trip expenses	24,012	40,095
Telecommunication and information services	16,870	18,012
Consulting, legal and audit services	7,959	52,799
Social expenditures and charity expenses	2,469	9,742
Other expenses	327,470	101,918
Total	10,862,852	9,555,346

Note 12. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2014.

As at 30 June 2015 the Group holds investments in equity shares of RUB 105 thousand classified as available for sale measured at fair value and belong to Level 1 in the fair value hierarchy (as at 31 December 2014: RUB 97 thousand). Valuation of available-for sale investments is made on a recurring basis using quoted market prices.

Note 13. Commitments

As at 30 June 2015 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 2,261,516 thousand (as at 31 December 2014: RUB 2,715,006 thousand).

Note 14. 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 does not have full coverage for its plant facilities, business interruption or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

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

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

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

(d) Environmental matters

The Group 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. The Group's 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) Disagreements with counterparties

As at 30 June 2015 the court claim of PJSC DPSC to JSC Dagenergoset due to the compensation for electricity losses payables amounted to RUB 7,769,114 thousand (as at 31 December 2014: RUB 7,769,114 thousands).

As at 30 June 2015 JSC Dagenergoset reported accounts payable of RUB 6,833,891 thousand and RUB 6,142,287 thousands of which were related to this claim (as at 31 December 2014: RUB 6,476,240 thousands and RUB 6,142,287 thousand, respectively).

As at 30 June 2015 the counterclaim of JSC Dagenergoset to PJSC "DESK" due to recovery for the electricity transmission services amounted to RUB 860,296 thousand (as at 31 December 2014: RUB 734,967 thousands).

The Group's management assumes that probability assumption of court ruling in respect of the disagreement amounted is medium.

As PJSC DPSC present no supporting documents for the revised calculations the Group has no basis to reconsider these changes and to report them.

Note 15. Related parties

(a) Control relationships

As at 30 June 2015 and 31 December 2014 PJSC ROSSETI was the Parent company of the Company.

The party with ultimate control over the Company is the Russian Government, which holds the majority of the voting rights in PJSC ROSSETI.

The majority of the Group's related party transactions are with the subsidiaries of PJSC ROSSETI and other state controlled entities.

(b) Transactions with the Parent and entities under common control of the Parent

Transactions with the Parent's subsidiaries were as follows:

	For the six months ended	
	30 June 2015	30 June 2014
Revenue:		
Electricity transmission	3,428,246	2,158,690
Rental income	4,509	3,683
Other revenue	41,673	42,493
Other income	67,434	-
Interest income on loans issued	12,399	20,360
Expenses:		
Transactions with the Parent		
Management services	38,262	38,262
Services for technical supervision	8,864	7,113
Transactions with the entities under common control of the Parent		
Electricity transmission	589,391	615,243
Purchased electricity for compensation of technological losses	1,443,655	1,093,986
Electricity and heat power for own needs	34,822	53,294
Other expenses	115,940	10,509

All outstanding balances with related parties are to be settled in cash within a year of the statement of financial position date. None of the balances are secured.

(c) Transactions with other state controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for electricity and heat are based on tariffs set by the Federal Antimonopoly Service. Bank loans are provided on the basis of market rates.

Revenues from state-controlled entities for the six months ended 30 June 2015 constitute 7% (the six months ended 30 June 2014: 13%), including 7% (the six months ended 30 June 2014: 14%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the six months ended 30 June 2015 constitute 1% (the six months ended 30 June 2014: 1%) of total transmission costs.

(d) Transactions with management and close family members

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

Salary and bonuses which are paid to members of Board of Directors and Key Management Personnel for performing their job responsibilities consist of wages, non-cash benefits, bonuses calculated on the basis of the results for the period presented in the Company's obligatory financial statements prepared in accordance with Russian accounting principles and payments to social funds.

Key management received the following remuneration during the year, which is included in personnel costs:

	For the six month ended	
	30 June 2015	30 June 2014
Salaries and bonuses	26,019	45,711

Note 16. Events after the reporting period

Issue of securities

On 27 July 2015 exchange-traded bond program and listing prospectus were approved by Board of Directors, according to which was made a decision to issue of non-convertible interest-bearing documentary exchange-traded bearer bonds with mandatory centralized custody, with a total nominal value of all issues of commercial papers which placed through public subscription within the framework of the exchange of bonds, no more than RUB 6 billion, inclusive, and with a maturity of no more than 3,640 days from the date of commencement of exchange bonds placement as a separate issue, placed within the exchange-traded bond program. On 14 August 2015 exchange-traded bond program assigned an identification number. In the second half of 2015 it is planned to place RUB 2 billion.