

RAO ENERGY SYSTEM OF EAST GROUP

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION (UNAUDITED),
PREPARED IN ACCORDANCE WITH IAS 34**

AS AT AND FOR THE THREE MONTHS ENDED 31 MARCH 2015

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RAO Energy System of East Group
Condensed Consolidated Interim Statement of Financial Position (unaudited)

(in millions of Russian Rubles unless noted otherwise)

	Note	31 March 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	6	92,243	90,890
Investments in associates		1,132	1,036
Available-for-sale financial assets		336	305
Deferred tax assets		948	987
Other non-current assets		2,109	1,854
Total non-current assets		96,768	95,072
Current assets			
Cash and cash equivalents	7	8,195	12,572
Income tax receivable		202	244
Accounts receivable and prepayments	8	27,600	23,137
Inventories	9	15,859	19,384
Other current assets	10	2,555	101
Total current assets excluding assets of disposal group classified as held for sale		54,411	55,438
Assets of disposal group classified as held for sale		-	311
Total current assets		54,411	55,749
TOTAL ASSETS		151,179	150,821
EQUITY AND LIABILITIES			
Equity			
Share capital	11	22,717	22,717
Treasury shares		(410)	(410)
Revaluation reserve		8,017	8,023
Retained losses and other reserves		(11,686)	(13,214)
Equity attributable to shareholders of parent company		18,638	17,116
Non-controlling interest		9,999	9,972
Total equity		28,637	27,088
Non-current liabilities			
Deferred tax liabilities		2,809	2,817
Non-current debt	13	43,452	45,524
Other non-current liabilities	14	6,698	6,624
Total non-current liabilities		52,959	54,965
Current liabilities			
Current debt and current portion of non-current debt	13	33,916	32,470
Accounts payable and accruals	15	28,265	29,592
Current income tax payable		566	230
Other taxes payable	16	6,836	5,980
Total current liabilities excluding liabilities of disposal group classified as held for sale		69,583	68,272
Liabilities of disposal group classified as held for sale		-	496
Total current liabilities		69,583	68,768
Total liabilities		122,542	123,733
TOTAL EQUITY AND LIABILITIES		151,179	150,821

First Deputy General Director – Executive Director

N. L. Zapryagaeva

Chief Accountant

Y. G. Medvedeva

25 June 2015

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Information

RAO Energy System of East Group
Condensed Consolidated Interim Income Statement and Statement of Other Comprehensive Income
(unaudited)

(in millions of Russian Rubles unless noted otherwise)

	Note	Three months ended 31 March 2015	Three months ended 31 March 2014
Revenue	17	48,373	44,968
Government grants	18	3,048	3,100
Expenses	19	(48,523)	(41,284)
Profit from disposal of subsidiaries	3	780	-
Operating profit		3,678	6,784
Finance income	20	545	187
Finance expenses	20	(2,432)	(1,399)
Share of income of associates		95	61
Profit before income tax		1,886	5,633
Total income tax expense	12	(337)	(972)
Profit and other comprehensive income for the period		1,549	4,661
Attributable to:			
Shareholders of parent company		1,522	2,747
Non-controlling interest		27	1,914
Profit per ordinary and preferred share from profit attributable to the shareholders of parent company – basic and diluted (in Russian Rubles per share)	21	0.0341	0.0616
Weighted average number of ordinary shares (in thousands)	21	42,537,972	42,537,972
Weighted average number of preference shares (in thousands)	21	2,075,149	2,075,149

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Information

RAO Energy System of East Group
Consolidated Interim Condensed Statement of Cash Flows (unaudited)
(in millions of Russian Rubles unless noted otherwise)

	Note	Three months ended 31 March 2015	Three months ended 31 March 2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		1,886	5,633
Depreciation of property, plant and equipment	19	2,000	1,943
(Profit)/loss from disposal of property, plant and equipment	19	(23)	86
Finance expense, net	20	1,887	1,212
Profit from disposal of subsidiary	3	(780)	-
Accrual of impairment of accounts receivable	19	379	44
Profit from associates		(95)	(61)
Other (income)/expense		(23)	92
Operating cash flows before working capital changes, income tax paid and change in other assets and liabilities		5,231	8,949
Working capital changes:			
Increase in accounts receivable and prepayments		(4,918)	(7,135)
Decrease in inventories		3,503	3,359
Decrease in accounts payable and accruals		(1,708)	(6,269)
Increase in other taxes payable		877	1,202
(Increase)/decrease in other non-current assets		(19)	122
Increase/(decrease) in other non-current liabilities		55	(43)
Income tax received		98	90
Net cash (used in)/generated by operating activity		3,119	275
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(2,155)	(1,574)
Proceeds from sale of property, plant and equipment		14	9
Interest received		390	81
Issue of loans and deposits placed		(2,602)	(8)
Proceeds from issued loans and deposits		189	24
Proceeds from sale of shares in subsidiary		60	-
Decrease in cash due to disposal of subsidiary		(7)	-
Net cash used in investing activity		(4,111)	(1,468)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt		9,401	14,098
Repayment of debt		(10,107)	(10,713)
Interest paid		(2,573)	(1,349)
Finance lease payments		(179)	(159)
Net cash (used)/generated by financing activity		(3,458)	1,877
Foreign exchange difference influence		73	-
(Decrease)/increase in cash and cash equivalents		(4,377)	684
Cash and cash equivalents at the beginning of the period	7	12,572	7,552
Cash and cash equivalents at the end of the period	7	8,195	8,236

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Information

RAO Energy System of East Group
Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

(in millions of Russian Rubles unless noted otherwise)

	Share capital	Treasury shares	Revaluation reserve	Revaluation of pension benefit obligations	Retained earnings/ (losses)	Total	Non-controlling interest	Total equity
Balance as at 01 January 2014	22,717	(410)	8,131	1,326	(14,101)	17,663	10,617	28,280
Profit for the period	-	-	-	-	2,747	2,747	1,914	4,661
Total comprehensive income for the period	-	-	-	-	2,747	2,747	1,914	4,661
Transfer of revaluation reserve to retained earnings	-	-	(1)	-	1	-	-	-
Balance as at 31 March 2014	22,717	(410)	8,130	1,326	(11,353)	20,410	12,531	32,941
Balance as at 01 January 2015	22,717	(410)	8,023	1,895	(15,109)	17,116	9,972	27,088
Profit for the period	-	-	-	-	1,522	1,522	27	1,549
Total comprehensive income for the period	-	-	-	-	1,522	1,522	27	1,549
Transfer of revaluation reserve to retain earnings	-	-	(6)	-	6	-	-	-
Balance as at 31 March 2015	22,717	(410)	8,017	1,895	(13,581)	18,638	9,999	28,637

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Information

RAO Energy System of East Group
Notes to the Condensed Consolidated Interim Financial Information as at and for the three months ended 31 March 2015 (unaudited)

(in millions of Russian Rubles unless noted otherwise)

Note 1. RAO Energy System of East Group and its Operations

The Open Joint Stock Company RAO Energy System of East (hereinafter referred to as “the Company”) was incorporated and is domiciled in the Russian Federation, is a joint responsibility of shareholders in the value of their shares and was incorporated under the laws of the Russian Federation.

As at 31 March 2015 and as at 31 December 2014 OJSC RusHydro owns 84.39 percent of the Company. The ultimate controlling party is the Russian Federation. Related party transactions are disclosed in Note 5.

The shares of the Company are traded on the Moscow Exchange.

The Company’s registered office is located at 46, Leningradskaya str., Khabarovsk, Russia, 680021.

The Group’s principal business activities are:

- electricity and heat generation;
- electricity and heat distribution;
- electricity and heat retail;
- electricity wholesale.

The Group operates in the Far East Federal region, which comprises Republic of Sakha (Yakutiya), Kamchatka territory, Primorye territory, Khabarovsk territory, Amur region, Magadan region, Sakhalin region, Evreiskaya autonomous district and Chukotka autonomous district and also in the Khanty-Mansi and Yamalo-Nenets autonomous districts.

Principal subsidiaries are disclosed in Note 3.

Relations with the State and current regulation. Many consumers of electricity and heat supplied by the Group are controlled by or affiliated with the Russian Federation. Moreover, the Russian Federation controls a number of fuel suppliers and suppliers of other materials for the Group (Note 5).

The Government affects the Group’s operations through:

- electricity, capacity and heat tariff regulation;
- ratification of the Company and some of subsidiaries investment programs, including volume and sources of their financing, control over their implementation;
- existing antimonopoly regulation.

The Russian Federation directly influences the activities of the Group by regulating the wholesale purchases of electricity via the Federal Tariff Service (hereinafter, “FTS”) and the retail sale of electricity, capacity and heat via executive bodies of constituents of the Russian Federation in charge of state price (tariffs) regulation. The activities of generating and grid companies (except operating within technologically isolated territories of electric power system) are operated by OJSC System Operator of the Unified Energy System (hereinafter, “SO UES”) to maintain the effective operation of the electricity market.

Tariffs on electricity and heat sold by the Group’s energy companies are set by regional regulating authorities based on maximum possible tariffs approved by FTS.

Operating environment. The economy of the Russian Federation has some characteristics of an emerging economy including relatively high inflation and high interest rates. It is particularly sensitive to oil and gas prices.

The tax, currency and customs legislation of the Russian Federation continues to develop and is subject to varying interpretations.

Decrease in oil prices, political and economic instability, observed in the region have had and may have in future a negative impact on the economy of the Russian Federation as well as weakening of the ruble and difficulty in external borrowing.

A number of international sanctions, the effect of which is currently difficult to determine, are introduced against the Russian Federation and its official representatives. In addition, there is a threat of additional sanctions.

Financial markets are in a state of uncertainty and volatility.

RAO Energy System of East Group
Notes to the Condensed Consolidated Interim Financial Information as at and for the three months ended 31 March 2015 (unaudited)

(in millions of Russian Rubles unless noted otherwise)

These and other events may have on the Group's business, its future financial position, operating results and business prospects a significant impact, the results of which at the moment, management is not able to predict. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business.

Management determined accounts receivable impairment provisions considering the economic situation and outlook at the end of the reporting period. The Group's accounts receivable are tested for impairment using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how probable those future events are. Future economic situation and regulatory environment can differ from existing expectations of the management.

Seasonality of business. The demand for the Group's heat and electricity generation and supply depends on weather conditions and the season. Heat and electricity production by the heat generation assets, is significantly higher in autumn and in winter than in spring and in summer. The seasonal nature of heat and electricity generation has a significant influence on the volume of fuel consumed by heat generation assets and electricity purchased by the Group.

The Group manages the liquidity risk of encountering difficulties in meeting its obligations under various scenarios covering both normal and more severe market conditions.

Note 2. Summary of significant accounting policies and new accounting pronouncements

Statement of compliance. This Consolidated Interim Condensed Financial Information has been prepared in accordance with and complies with IAS 34, Interim Financial Reporting and should be read in conjunction with the annual Consolidated Financial Statements as at and for the year ended 31 December 2014, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

This Consolidated Interim Condensed Financial Information is unaudited and does not contain certain information and disclosures required in annual IFRS financial statements. Disclosures duplicating information included in the annual Consolidated Financial Statements as at and for the year ended 31 December 2014 have been omitted or condensed.

Accounting policy. The accounting policies followed in the preparation of this Consolidated Interim Condensed Financial Information are consistent with those applied in the annual Consolidated Financial Statements as at and for the year ended 31 December 2014 except for income tax which is accrued in the interim periods using the tax rate that would be applicable to expected total annual profit or loss, and new standards and interpretations effective from 1 January 2015.

Certain reclassifications have been made to prior period data to conform to the current period presentation. These reclassifications are not material.

New standards and interpretations. The Group has adopted all new standards and interpretations that were effective from 1 January 2015. The impact of the adoption of these new standards and interpretations has not been significant with respect to this Condensed Consolidated Interim Financial Information.

Critical accounting estimates and judgements. The preparation of Condensed Consolidated Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this Condensed Consolidated Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 December 2014 with the exception of changes in estimates that are required in determining the weighted average annual income tax rate (Note 12) and discounting rate used for calculation of pension obligation (Note 14).

RAO Energy System of East Group
Notes to the Condensed Consolidated Interim Financial Information as at and for the three months ended 31 March 2015 (unaudited)

(in millions of Russian Rubles unless noted otherwise)

Note 3. Principal subsidiaries

All subsidiaries are incorporated and operate in the Russian Federation. The following are the principal subsidiaries as at 31 March 2015 and 31 December 2014:

Name	31 March 2015		31 December 2014	
	Ownership %	Voting %	Ownership %	Voting %
OJSC DEK	51.08	51.13	51.08	51.13
OJSC DGK (subsidiary of OJSC DEK)	51.08	100.00	51.08	100.00
OJSC DRSK (subsidiary of OJSC DEK)	51.08	100.00	51.08	100.00
Isolated energy systems:				
OJSC Kamchatskenergo	98.74	98.74	98.74	98.74
OJSC Magadanenergo*	49.00	49.00	49.00	49.00
OJSC Yakutskenergo*	49.37	49.37	49.37	49.37
OJSC Sakhalinenergo	55.55	55.55	55.55	55.55

* Control is based on the ability to secure a majority of votes on the shareholders meeting.

Changes in group structure

23 March 2015 the Group has sold share in OJSC Daltekhenergo. The consideration will be fully paid in cash and amounted to RR 210 million. The disposal of the OJSC Daltekhenergo was carried out in accordance with the decision of the Board of Directors of the Company (minutes No. 113 dated 28 November 2014). The amount of net assets of the OJSC Daltekhenergo at the date of disposal was negative and equaled to RR 548 million. Gain on disposal was recorded in amount of RR 758 million.

Also, 24 March 2015 the Group has sold share in OJSC Guberovskiy machinery and repair plant. The consideration was fully paid in cash and amounted to RR 25 million. The disposal of the OJSC Guberovskiy machinery and repair plant was carried out in accordance with the decision of the Board of Directors of OJSC DEK (minutes No. 230 dated 19 December 2014). The amount of net assets of the OJSC Guberovskiy machinery and repair plant at the date of disposal equaled to RR 3 million. Gain on disposal was recorded in amount of RR 22 million.

Up to the date of disposal loss from operating activities of subsidiaries disposed amounted to RR 52 million. As a result of disposal non-controlling interest was reduced by RR 2 million.

OJSC Daltekhenergo and OJSC Guberovskiy machinery and repair plant provided repair and construction services.

Note 4. Segment information

Operating segments are components of the Group engaged in operations from which they may earn revenue and incur expenses, including revenue and expenses relating to transactions with other components of the Group. The individual financial information of the segments is available and is regularly reviewed by the chief operating decision maker (CODM) to make operating decisions about resources to be allocated and the performance of segments' operating activities.

CODM analysed information about the Group in respect of five main reporting segments:

- Segment "Subgroup DEK" - OJSC DEK Group's segment includes OJSC DGK and OJSC DRSK that generate, transport, distribute electricity and heat in Amur region, Khabarovsk territory, Primorye territory and Evreiskaya autonomous district. Other OJSC DEK subsidiaries provide transportation and repair services, modernization and reconstruction of power equipment, and also engaged in the construction of energy facilities and performing service functions.
- Segment "Subgroup Kamchatskenergo" - OJSC Kamchatskenergo segment represents subsidiaries that generate electricity and heat and provide transportation, distribution and other services in the Kamchatka territory.

RAO Energy System of East Group
Notes to the Condensed Consolidated Interim Financial Information as at and for the three months ended 31 March 2015 (unaudited)

(in millions of Russian Rubles unless noted otherwise)

- Segment “Subgroup Magadanenergo” - OJSC Magadanenergo segment represents subsidiaries that generate electricity and heat and provide transportation, distribution and other services in the Magadan region and Chukotka autonomous district.
- Segment “Subgroup Sakhalinenergo” - OJSC Sakhalinenergo segment represents subsidiaries that generate electricity and heat and provide transportation, distribution and other services in the Sakhalin region.
- Segment “Subgroup Yakutskenergo” - OJSC Yakutskenergo segment represents subsidiaries that generate electricity and heat and provide transportation, distribution and other services in the Republic of Sakha (Yakutiya).

The Group also includes entities supporting Group's operations which are not considered as separate segment by the CODM due to immaterial quantitative data for reporting periods.

Management of operating activities of segments is performed with direct participation of individual segment managers accountable to the CODM. Segment managers on a regular basis submit for approval to the CODM results of operating activities and financial performance of segments. The CODM approves the annual business plan at the level of reportable segments as well as analyses actual financial performance of segments. Management bears responsibility for execution of approved plan and management of operating activities at the level of segments.

The segments' operational results are estimated on the basis of EBITDA, which is calculated as operating profit / loss excluding depreciation of property, plant and equipment and intangible assets, impairment of property, plant and equipment, impairment of available-for-sale financial assets, accounts receivable, long-term promissory notes, goodwill and intangible assets, loss on disposal of property, plant and equipment, curtailment in pension plan. This method of definition of EBITDA may differ from the methods applied by other companies. CODM believes that EBITDA represents the most useful means of assessing the performance of ongoing operating activities of the Company and the Group's subsidiaries, as it reflects the earnings trends without showing the impact of certain charges.

Segment information also contains capital expenditures and the amount of debt as these indicators are analysed by the CODM. Intersegment debt's balances are excluded.

Other information provided to the CODM complies with the information presented in the consolidated financial statements.

Transactions between the operating segments are on normal commercial terms. Sales between segments are carried out as between independent parties.

Segment information as at 31 March 2015 and 31 December 2014 and for the three months ended 31 March 2015 and 31 March 2014 is presented below:

RAO Energy System of East Group
Notes to the Condensed Consolidated Interim Financial Information as at and for the three months ended 31 March 2015 (unaudited)

(in millions of Russian Rubles unless noted otherwise)

Three months ended 31 March 2015	Subgroup DEK	Subgroup Kamchatskenergo	Subgroup Magadanenergo	Subgroup Sakhalinenergo	Subgroup Yakutskenergo	Other	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	51,598	3,331	3,022	2,409	10,855	1,033	72,248	(23,875)	48,373
<i>including:</i>									
<i>from external companies:</i>									
<i>sales of electricity</i>	18,263	1,277	1,736	1,877	6,128	284	29,565	-	29,565
<i>sales of capacity</i>	1,232	-	-	-	-	90	1,322	-	1,322
<i>heat sales</i>	8,598	2,010	1,104	454	1,622	-	13,788	-	13,788
<i>other revenue</i>	3,046	35	49	64	276	228	3,698	-	3,698
<i>from intercompany operations</i>	20,459	9	133	14	2,829	431	23,875	(23,875)	-
Government grants	102	1,243	201	260	1,117	82	3,005	43	3,048
Expenses									
(excluding depreciation and other non-monetary items)	(48,727)	(4,110)	(3,903)	(1,956)	(10,384)	(882)	(69,962)	23,795	(46,167)
<i>including:</i>									
<i>from intercompany operations</i>	(18,667)	(15)	(76)	(77)	(3,153)	(44)	(22,032)	22,032	-
Other operating income	25	-	-	-	-	210	235	-	235
EBITDA	2,998	464	(680)	713	1,588	443	5,526	(37)	5,489
Depreciation of property, plant and equipment	(1,309)	(10)	(87)	(176)	(336)	(114)	(2,032)	32	(2,000)
Other non-monetary items	-	(196)	73	(31)	(195)	530	181	8	189
<i>including:</i>									
<i>reversal/(accrual) of impairment for accounts receivable, net</i>	(3)	(198)	69	(31)	(199)	(17)	(379)	-	(379)
<i>profit/(loss) from disposal of property, plant and equipment, net</i>	6	2	4	-	4	(1)	15	8	23
<i>profit/(loss) from disposal of subsidiaries</i>	(3)	-	-	-	-	548	545	-	545
Operating profit	1,690	258	(694)	506	1,057	858	3,675	3	3,678
Finance income	-	-	-	-	-	-	-	-	545
Finance expenses	-	-	-	-	-	-	-	-	(2,432)
Share of income of associates	-	-	-	-	-	-	-	-	95
Profit before income tax	-	-	-	-	-	-	-	-	1,886
Total income tax expense	-	-	-	-	-	-	-	-	(337)
Profit for the period	-	-	-	-	-	-	-	-	1,549
Capital expenditure	1,253	63	57	65	440	1,572	3,450	-	3,450
31 March 2015									
Non-current and current debt	(52,671)	(5,886)	(2,206)	(3,760)	(6,488)	(6,357)	(77,368)	-	(77,368)

RAO Energy System of East Group
Notes to the Condensed Consolidated Interim Financial Information as at and for the three months ended 31 March 2015 (unaudited)

(in millions of Russian Rubles unless noted otherwise)

Three months ended 31 March 2014	Subgroup DEK	Subgroup Kamchatskenergo	Subgroup Magadanenergo	Subgroup Sakhalinenergo	Subgroup Yakutskenergo	Other	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	47,157	3,296	2,865	2,313	10,412	916	66,959	(21,991)	44,968
<i>including:</i>									
<i>from external companies:</i>									
<i>sales of electricity</i>	28,709	3,290	2,743	2,301	7,452	473	44,968	-	44,968
<i>sales of capacity</i>	15,923	1,200	1,549	1,763	5,210	220	25,865	-	25,865
<i>heat sales</i>	975	-	-	-	-	91	1,066	-	1,066
<i>other revenue</i>	8,555	2,043	1,150	461	1,538	-	13,747	-	13,747
<i>from intercompany operations</i>	3,256	47	44	77	704	162	4,290	-	4,290
Government grants	18,448	6	122	12	2,960	443	21,991	(21,991)	-
Expenses (excluding depreciation and other non-monetary items)	94	1,086	105	260	1,463	92	3,100		3,100
<i>including:</i>									
<i>from intercompany operations</i>	(41,800)	(3,925)	(3,359)	(1,799)	(9,419)	(772)	(61,074)	21,863	(39,211)
EBITDA	5,452	457	(389)	774	2,456	237	8,985	(128)	8,857
Depreciation of property, plant and equipment	(1,214)	(36)	(84)	(226)	(300)	(119)	(1,979)	36	(1,943)
Other non-monetary items	(3)	(78)	83	-	(116)	(16)	(130)	-	(130)
<i>including:</i>									
<i>reversal/(accrual) of impairment for accounts receivable, net</i>	45	(76)	73	-	(70)	(16)	(44)	-	(44)
<i>profit/(loss) from disposal of property, plant and equipment, net</i>	(48)	(2)	10	-	(46)	-	(86)	-	(86)
Operating profit	4,235	343	(390)	548	2,040	102	6,876	(92)	6,784
Finance income									187
Finance expenses									(1 399)
Share income of associates									61
Profit before income tax									5 633
Total income tax expense									(972)
Profit for the period									4 661
Capital expenditure	865	30	88	104	384	530	2,002	-	2,002
31 December 2014									
Non-current and current debt	(51,017)	(5,666)	(2,003)	(4,272)	(8,566)	(6,470)	(77,994)	-	(77,994)

RAO Energy System of East Group
Notes to the Condensed Consolidated Interim Financial Information as at and for the three months ended 31 March 2015 (unaudited)

(in millions of Russian Rubles unless noted otherwise)

Note 5. Related party transactions

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Government-related entities. In the normal course of business the Group enters into transactions with the entities controlled by the Government. The Group had transactions during the three months ended 31 March 2015 and 31 March 2014 and balances outstanding as at 31 March 2015 and 31 December 2014 with a number of government-related banks. Loans are provided at commercial terms.

The Group sells electricity, capacity and heat to government-related entities. Prices for such electricity and capacity sales are based on tariffs set by FTS and Regional Energy Commissions. The Group's sales to government-related entities comprised approximately 35 percent of total sales for the three months ended 31 March 2015 (for the three months ended 31 March 2014: approximately 31 percent). The Group's purchases from government-related entities comprised approximately 20 percent of total expenses on purchased goods and services for the three months ended 31 March 2015 (for the three months ended 31 March 2014: approximately 28 percent).

Transactions with Key management of the Group. Compensation and bonuses are paid to the members of the Management Board of the Company and the major subsidiaries for their services in full time management positions. The compensation is made up of a contractual salary and performance bonus depending on the results of the work for the period based on key performance indicators. The key performance indicators are approved by the Board of Directors.

Fees, compensation or allowances to the members of the Board of Directors of the Company and the major subsidiaries are paid for attending Board meetings.

Major part of compensation for Key management personnel is generally short-term excluding future payments under pension plans with defined benefits. Defined benefit payments to Key management of the Group are calculated based on the same terms as for the other employees.

Short-term remuneration paid to the key management of the Group for the three months ended 31 March 2015 was RR 117 million (for the three months ended 31 March 2014: RR 115 million).

Parent company and entities under common control. In the normal course of business the Group enters into transactions with the OJSC RusHydro and entities under common control.

At 31 March 2015 and at 31 December 2014 the outstanding balances with entities controlled by OJSC RusHydro were as follows:

	31 March 2015	31 December 2014
Accounts receivable and prepayments	29	35
Accounts payable and accruals	1,284	1,203
Non-current debt	21,843	23,359
Current debt	1,784	139

The income and expense items with entities controlled by OJSC RusHydro:

	Three months ended 31 March 2015	Three months ended 31 March 2014
Sales of electricity	87	90
Other revenue	-	12
Expenses	2,271	2,167
Finance expenses	750	473

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The above balances include the following amounts of transactions and balances with parent company OJSC RusHydro:

	31 March 2015	31 December 2014
Accounts receivable and prepayments	2	2
Accounts payable and accruals	606	715
Non-current debt	21,843	23,359
Current debt	1,784	139

	Three months ended 31 March 2015	Three months ended 31 March 2014
Other revenue	-	3
Expenses	1,642	2,035
Finance expenses	750	473

Associates. At 31 March 2015 and at 31 December 2014 the outstanding balances with associates were as follows:

	31 March 2015	31 December 2014
Accounts receivable and prepayments	325	293
Accounts payable and accruals	423	351

The income and expense items with associates:

	Three months ended 31 March 2015	Three months ended 31 March 2014
Revenue	821	802
Expenses	84	1

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Note 6. Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

Cost	Production buildings	Facilities	Machinery and equipment	Construction in progress	Other	Total
Opening balance as at 1 January 2015	27,812	58,309	53,640	18,833	7,310	165,904
Additions	-	11	182	3,215	42	3,450
Transfers	15	260	283	(562)	4	-
Disposals	(7)	-	(37)	(35)	(29)	(108)
Closing balance as at 31 March 2015	27,820	58,580	54,068	21,451	7,327	169,246
Accumulated depreciation (including impairment)						
Opening balance as at 1 January 2015	(12,612)	(28,895)	(27,907)	(2,080)	(3,520)	(75,014)
Depreciation charge	(222)	(762)	(824)	-	(247)	(2,055)
Transfers	(13)	(44)	(25)	82	-	-
Disposals	5	-	37	1	23	66
Closing balance as at 31 March 2015	(12,842)	(29,701)	(28,719)	(1,997)	(3,744)	(77,003)
Net book value as at 31 March 2015	14,978	28,879	25,349	19,454	3,583	92,243
Net book value as at 1 January 2015	15,200	29,414	25,733	16,753	3,790	90,890
Opening balance as at 1 January 2014						
1 January 2014	26,473	51,984	48,888	16,996	6,985	151,326
Additions	-	2	60	1,857	83	2,002
Transfers	42	158	253	(479)	26	-
Disposals	(8)	(52)	(52)	(38)	(45)	(195)
Closing balance as at 31 March 2014	26,507	52,092	49,149	18,336	7,049	153,133
Accumulated depreciation (including impairment)						
Opening balance as at 1 January 2014	(11,374)	(25,652)	(24,192)	(2,557)	(2,911)	(66,686)
Depreciation charge	(212)	(689)	(877)	-	(201)	(1,979)
Transfers	(4)	(25)	(5)	35	(1)	-
Disposals	3	21	41	1	17	83
Closing balance as at 31 March 2014	(11,587)	(26,345)	(25,033)	(2,521)	(3,096)	(68,582)
Net book value as at 31 March 2014	14,920	25,747	24,116	15,815	3,953	84,551
Net book value as at 1 January 2014	15,099	26,332	24,696	14,439	4,074	84,640

Included in the above carrying amount of RR 2,004 million (31 December 2014: RR 2,027 million) represents cost of assets relating to office buildings of the Group which are stated at non-revalued deemed cost.

Impairment as at 31 March 2015. Management of the Group considered the market and economic environment in which the Group operates to assess whether any indicators of property, plant and equipment being impaired existed, or that an impairment loss recognised in prior periods may no longer exist or may have decreased for each reporting date. As a result of this analysis as at 31 March 2015 no such indicators were revealed.

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Note 7. Cash and cash equivalents

	31 March 2015	31 December 2014
Cash at bank	3,917	5,176
Deposits less than three month and others cash equivalents	4,259	7,382
Cash in hand	19	14
Total cash and cash equivalents	8,195	12,572

Note 8. Accounts receivable and prepayments

	31 March 2015	31 December 2014
Trade receivables	31,409	26,488
Provision for impairment of trade receivables	(9,092)	(8,907)
Trade receivables, net	22,317	17,581
Other receivables	2,133	1,707
Provision for impairment of other receivables	(506)	(486)
Other receivables, net	1,627	1,221
Advances to suppliers and prepayments	2,213	2,583
Provision for impairment of advances to suppliers and other prepayments	(342)	(349)
Advances to suppliers and other prepayments, net	1,871	2,234
Value added tax recoverable	1,785	2,101
Total accounts receivable and advances given	27,600	23,137

The Group does not hold any accounts receivable pledged as collateral.

Note 9. Inventories

	31 March 2015	31 December 2014
Fuel	9,567	13,226
Materials and supplies	4,548	4,531
Spare parts	1,362	1,279
Other materials	404	381
Total inventories, gross	15,881	19,417
Provision for inventory obsolescence	(22)	(33)
Total inventories	15,859	19,384

Note 10. Other current assets

	31 March 2015	31 December 2014
Current deposits – financial assets	2,407	-
Other short-term investments	148	101
Total other current assets	2,555	101

Note 11. Equity

Share capital. As at 31 March 2015 and 31 December 2014 share capital of the Company is RR 22,717 million and consists of 43,358,822,914 ordinary shares and 2,075,149,384 preference share with nominal value 0.5 RR each.

Dividends. In accordance with general annual shareholders meeting of the Company for the year ended 31 December 2014 the dividends were not declared and paid. Due to the non-payment of dividends on preferred shares their owners were given voting rights until the first payment of dividends on such shares will be made in full.

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Note 12. Income tax

Income tax expense is recognised based on the management's best estimate of the weighted average annual income tax rate expected for the full financial year. The tax effect of the exceptional or one-off items has not been included in the estimation of the weighted average annual income tax rate. The estimated average annual effective income tax rate used for the three months ended 31 March 2015 was 14 percent (for the three months ended 31 March 2014: 17 percent).

	Three months ended 31 March 2015	Three months ended 31 March 2014
Current income tax expense	(306)	(474)
Deferred income tax (expense)/income	(31)	(498)
Total income tax expense	(337)	(972)

Note 13. Current and non-current debt

Non-current borrowings

	Year of maturity	31 March 2015	31 December 2014
OJSC RusHydro	2015-2021	23,273	23,359
OJSC Sberbank	2016-2018	13,301	14,561
OJSC Bank of Moscow	2015-2016	7,494	7,536
EBRD	2016-2025	6,026	6,068
PJSC ROSBANK	2016	4,561	4,481
OJSC Bank VTB	2015-2018	4,522	4,522
Bank GPB (JSC)	2016	806	1,179
Other	2015-2036	594	587
Finance lease liabilities		2,027	2,133
Total		62,604	64,426
Less current portion of loans and borrowings		(18,426)	(18,147)
Less current finance lease liabilities		(726)	(755)
Total Non-current borrowings		43,452	45,524

Current borrowings

	31 March 2015	31 December 2014
OJSC Sberbank	4,973	2,830
OJSC Bank VTB	4,957	4,921
PJSC ROSBANK	2,893	4,096
AO Raiffeisenbank	557	598
JSC RRDB	481	727
OJSC Kamchatkomargoprombank	180	-
OJSC Rosselkhozbank	171	227
Bank GPB (JSC)	138	26
OJSC RusHydro	354	139
Other	60	4
Total	14,764	13,568
Current portion of loans and borrowings	18,426	18,147
Current finance lease liabilities	726	755
Total current borrowings and current part of non-current borrowings	33,916	32,470

Currency of all non-current and current borrowings is Russian Rubles.

As at 31 March 2015 and 31 December 2014 some of the Group's credit contracts are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators. The Group fulfilled all of the requirements as at 31 March 2015 and as at 31 December 2014.

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Note 14. Other non-current liabilities

	31 March 2015	31 December 2014
Pension benefit obligations	4,416	4,416
Reserve for ash dump	678	589
Other non-current liabilities	1,604	1,619
Total other non-current liabilities	6,698	6,624

Principal actuarial assumptions at 31 December 2014 and on 31 March 2015 remained unchanged.

Other non-current liabilities include mainly non-current accounts payable under finance lease-back agreements and advances received under the contracts of technological connection to the grids.

Note 15. Accounts payable and accruals

	31 December 2014	31 December 2013
Trade payables	15,478	16,805
Other accounts payable	2,204	1,504
Total financial liabilities within accounts payable and accruals	17,682	18,309
Advances received	4,589	6,069
Settlements with personnel	5,985	5,205
Dividends payable	9	9
Total accounts payable and accruals	28,265	29,592

All accounts payable nominated in Russian Rubles.

Payables to suppliers of property, plant and equipment of RR 1,525 million (31 December 2014: RR 2,035 million) included in current accounts payable.

Note 16. Other taxes payable

	31 March 2015	31 December 2014
Value added tax	3,492	3,572
Insurance contribution	2,075	1,517
Property tax	822	437
Other taxes	447	454
Total other taxes payable	6,836	5,980

Note 17. Revenue

	Three months ended 31 March 2015	Three months ended 31 March 2014
Sales of electricity and capacity	30,887	26,931
Heat and hot water sales	13,788	13,747
Other revenue	3,698	4,290
Total revenue	48,373	44,968

Other revenue includes mainly revenue from transportation of electricity and heat, repair and construction services, technological connection, resale of goods, rentals and communication services.

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Note 18. Government grants

In accordance with law some subsidiaries are entitled to government subsidies, these government subsidies appropriated for compensation of the difference between approved economically viable electricity and heat tariffs and actual reduced tariffs and for compensation of losses on purchased fuel. During the three months ended 31 March 2015 the Group received government subsidies in amount of RR 3,048 million (for the three months ended 31 March 2014 in the amount of RR 3,100 million) in the following subsidised territories: Kamchatka territory, Republic of Sakha (Yakutiya), Magadan region and other Far East regions.

Note 19. Expenses

	Three months ended 31 March 2015	Three months ended 31 March 2014
Fuel expenses	18,479	15,094
Employee benefit expenses (including payroll taxes and pension benefit expenses)	13,346	11,501
Electricity distribution expenses	3,919	4,062
Purchased electricity and capacity	3,738	2,587
Depreciation of property, plant and equipment	2,000	1,943
Other materials	1,320	1,275
Third parties services, including:		
Purchase and transportation of heat power	962	877
Security expenses	329	307
Repairs and maintenance	322	233
Rent	313	308
Services of subcontracting companies	232	212
Services of SO-CDU, NP Council Market, CFS	186	183
Transportation expenses	152	160
Consulting, legal and information expenses	141	230
Insurance cost	81	65
Other third parties services	925	765
Accrual of impairment for accounts receivable, net	379	44
Taxes other than on income	625	504
Water usage expenses	488	450
Social charges	139	92
Purchase of oil products for sale	61	226
(Profit)/loss on disposal of property, plant and equipment, net	(23)	86
Insurance indemnity	(34)	(20)
Other expenses	443	100
Total expenses	48,523	41,284

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Note 20. Finance income, expenses

	Three months ended 31 March 2015	Three months ended 31 March 2014
<i>Finance income</i>		
Interest income	437	93
Foreign exchange gain	76	94
Finance gain related to discounting	6	-
Other finance income	26	-
Finance income	545	187
<i>Finance expenses</i>		
Interest expense	(2,122)	(1,316)
Finance expense related to discounting	(217)	(8)
Finance lease expense	(85)	(51)
Foreign exchange loss	(8)	-
Other finance expenses	-	(24)
Finance expenses	(2,432)	(1,399)

Note 21. Earnings per share

	Three months ended 31 March 2015	Three months ended 31 March 2014
Weighted average number of ordinary shares, in thousands	42,537,972	42,537,972
Weighted average number of preference shares, in thousands	2,075,149	2,075,149
Profit attributable to ordinary and preference shareholders, thousand Russian Rubles	1,521,575	2,747,313
Basic and diluted profit per share for profit from operations attributable to the owners of the Company (in RR per share)	0.0341	0.0616

Note 22. Contingencies and commitments

Legal proceedings. The Group's subsidiaries are parties 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 position of the Group.

Tax contingencies. Russian tax, currency and customs legislation are subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

Management believes that as at 31 March 2015 its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

Russian transfer pricing legislation was modified and effective from 1 January 2012. New principles are significantly detailed and have more accordance with international principles developed by Organization for Economic Co-operation and Development (OECD). The new transfer pricing legislation also provides the possibility for tax authorities to impose additional tax liabilities in respect of all controllable transactions (transactions with interdependent parties and some sort of transactions with independent parties), if transactions do not comply with market conditions.

During the three months ended 31 March 2015 Group companies have been carrying out controlled transactions and transactions that are highly likely to be recognized as such by the end of the period.

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Management believes that the prices used by the Group companies in the first half of 2014 and the preceding years, correspond to the market level, and it has implemented internal control procedures for the implementation of new regulations on transfer pricing.

Due to the specifics of Russian transfer pricing rules the impact of any challenge by tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Environmental matters. The Group's subsidiaries and their predecessor entities have operated in the utilities industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group's subsidiaries periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage. The Group recognised environmental provision for land recultivation as at 31 March 2015 and 31 December 2014. The amount of environmental provision as at 31 March 2015 RR 701 million, including short term part RR 23 million (RR 653 million as at 31 December 2014, including short term part RR 32 million) Note 15.

Social commitments. The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

Capital expenditure commitments. In accordance with separate investment programmes of subsidiaries the Group has to invest RR 71,087 million for the period 2015-2017 for reconstruction of the existing and construction of capacities.

Capital commitments of the Group as at 31 March 2015 were RR 67,357 million, including 2015 year – RR 29,870 million, 2016 year – RR 21,573 million, 2017 year – RR 15,914 million.

During the year the separate investment programmes of subsidiaries could be revised. Corresponding changes are proposed to competent bodies for approval which as a rule is conducted at the year end.

Future capital expenditures are mainly related to reconstruction of existed equipment of power plants and grid.

Note 23. Financial instruments and financial risk management

Financial risks. The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as at 31 December 2014.

There have been no changes in the risk management department or in any risk management policies in the reporting period.

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Presentation of financial instruments by measurement category. The following table provides a reconciliation of classes of financial assets with the measurement categories of IAS 39, Financial Instruments: Recognition and Measurement as at 31 March 2015 and 31 December 2014:

	Loans and receivables	Available-for-sale financial assets	Total
31 March 2015			
Assets			
Other non-current assets	779	-	779
Non-current accounts receivable	779	-	779
Available-for-sale financial assets	-	336	336
Trade and other receivables (Note 8)	23,944	-	23,944
Trade receivables	22,317	-	22,317
Other receivables	1,627	-	1,627
Other current assets	2,407	-	2,407
Current deposits	2,407	-	2,407
Cash and cash equivalents (Note 7)	8,195	-	8,195
Total financial assets	35,325	336	35,661
Total non-financial assets	115,518	-	115,518
Total assets	150,843	336	151,179
31 December 2014			
Assets			
Other non-current assets	539	-	539
Non-current accounts receivable	539	-	539
Available-for-sale financial assets	-	305	305
Trade and other receivables (Note 8)	18,802	-	18,802
Trade receivables	17,581	-	17,581
Other receivables	1,221	-	1,221
Cash and cash equivalents (Note 7)	12,572	-	12,572
Total financial assets	31,913	305	32,218
Total non-financial assets	118,603	-	118,603
Total assets	150,516	305	150,821

All of the Group's financial liabilities are carried at amortised cost. Financial liabilities represented mainly by current and non-current debt (Note 13), trade payables and other accounts payable (Note 15).

Note 24. Fair value of assets and liabilities

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

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The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

		31 March 2015				31 December 2014			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Available-for-sale assets	financial	173	-	163	336	141	-	164	305
Non-current receivable	accounts	-	-	633	633	-	-	539	539
Non-financial assets									
Property, plant and equipment (excluding construction in progress, office buildings and land)		-	-	70,785	70,785	-	-	72,110	72,110
Total assets recurring fair value measurements		173	-	71,581	71,754	141	-	72,813	72,954

The Group had no liabilities measured at fair value as at 31 March 2015 and 31 December 2014.

There were no changes in valuation techniques, inputs and assumptions for recurring fair value measurements during the three months ended 31 March 2015.

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Financial assets carried at amortised cost. The Group considers that the fair value of cash, short term deposits and accounts receivable approximates their carrying value. The fair value of long term accounts receivable is estimated based on future cash flows expected to be received including expected losses (Level 3 of the fair value hierarchy), the fair value of these assets approximates their carrying value.

Liabilities carried at amortised cost. The fair value of floating rate liabilities approximates their carrying value. Fair value of the fixed rate liabilities is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity (Level 3 of the fair value hierarchy).

The fair value of current liabilities carried at amortised cost approximates their carrying value.

As at 31 March 2015 fair value of non-current fixed rate loans and borrowings comprised RR 17,456 million, its carrying value comprised RR 24,265 million. As at 31 December 2014 fair value of non-current fixed rate loans and borrowings comprised RR 22,689 million, its carrying value comprised RR 26,179 million.

Note 25. Subsequent events

At 18 June 2015 annual general meeting of shareholders of OJSC RAO Energy System of East took place. In accordance with the recommendations of the Board of Directors it was decided not to pay dividends for the year ended 31 December 2014.