RAO ENERGY SYSTEM OF EAST GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AND INDEPENDENT AUDITOR'S REPORT**

31 DECEMBER 2014

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Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company RAO Energy System of East.

We have audited the accompanying consolidated financial statements of Open Joint Stock Company RAO Energy System of East and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain sufficient assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained provides a sufficient and appropriate basis to express an opinion on the fair presentation of these consolidated financial statements.

Translation note:

This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

ZAO PricewaterhouseCoopers Audit, White Square Office Center, 10 Butyrsky Val, Moscow, Russia, 125047
T:+7 (495) 967 6000, F: +7 (495) 967 6001, www.pwc.ru

Independent Auditor's Report (Continued)

Opinion

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

ZAO PricewaterhouseCoopers Audit

19 March 2015

Moscow, Russian Federation

T.V. Sirotinskaya, Director (licence no. 01-000527),
ZAO PricewaterhouseCoopers Audit

Audited entity: Open Joint Stock Company RAO Energy System of East

State registration certificate № 1087760000052, issued by Interdistrict Inspection of the Federal Tax Service No. 46 for The Moscow city on 01 July 2008

Certificate of inclusion in the Unified State Register of Legal Entities series 77 №011168014 issued on 01 July 2008

680021, Russian Federation, Khabarovsk, Leningradskaya str., 46

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities № 1027700148431 issued on 22 August 2002

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

Translation note:

This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

RAO Energy System of East Group
Consolidated Statement of Financial Position
(in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	7	90,890	84,640
Investments in associates	8	1,036	1,046
Available-for-sale financial assets		305	381
Deferred tax assets	15	987	500
Other non-current assets	9	1,854	1,358
Total non-current assets		**95,072**	**87,925**
Current assets			
Cash and cash equivalents	10	12,572	7,552
Income tax receivable		244	309
Accounts receivable and prepayments	11	23,137	22,805
Inventories	12	19,384	19,036
Other current assets		101	51
Total current assets excluding assets of disposal group classified as held for sale		**55,438**	**49,753**
Assets of disposal group classified as held for sale	13	311	-
Total current assets		**55,749**	**49,753**
TOTAL ASSETS		**150,821**	**137,678**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	22,717	22,717
Treasury shares	14	(410)	(410)
Revaluation reserve on property plant and equipment		8,023	8,131
Retained losses and other reserves		(13,214)	(12,775)
Equity attributable to shareholders of the parent company		**17,116**	**17,663**
Non-controlling interest		9,972	10,617
TOTAL EQUITY		**27,088**	**28,280**
Non-current liabilities			
Deferred income tax liabilities	15	2,817	2,019
Non-current debt	16	45,524	49,950
Other non-current liabilities	17	6,624	7,222
Total non-current liabilities		**54,965**	**59,191**
Current liabilities			
Current debt and current portion of non-current debt	16	32,470	14,724
Accounts payable and accruals	19	29,592	29,953
Current income tax payable		230	53
Other taxes payable	20	5,980	5,477
Total current liabilities excluding liabilities of disposal group classified as held for sale		**68,272**	**50,207**
Liabilities of disposal group classified as held for sale	13	496	-
Total current liabilities		**68,768**	**50,207**
TOTAL LIABILITIES		**123,733**	**109,398**
TOTAL EQUITY AND LIABILITIES		**150,821**	**137,678**

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО ИНН 2801133630 "РАО Энергетические системы Востока" ОГРН 1087760000052 г. Хабаровск

General Director S. N. Tolstoguzov

Chief Accountant Y.G. Medvedeva

19 March 2015

The accompanying notes are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Revenue	21	150,286	139,596
Government grants	22	12,413	13,233
Expenses	23	(158,198)	(140,997)
Impairment of property, plant and equipment	7, 17	(1,746)	-
Loss on disposal group remeasurement	13	-	(4,804)
Profit from subsidiary disposal		64	-
Operating profit		**2,819**	**7,028**
Finance income	24	1,438	853
Finance expenses	24	(6,951)	(6,020)
Share of income/(loss) of associates	8	(10)	109
(Loss)/profit before income tax		**(2,704)**	**1,970**
Total income tax benefit	15	523	2,711
(Loss)/profit for the year		**(2,181)**	**4,681**
Attributable to:			
Shareholders of the parent company		(1,071)	2,772
Non-controlling interest		(1,110)	1,909
(Loss)/profit per share attributable to the shareholders of the parent company – basic and diluted (in Russian Rubles per share)	25	(0.0240)	0.0621
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

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
(Loss)/profit for the year		**(2,181)**	**4,681**
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss			
Impairment of revalued property, plant and equipment	7	(87)	-
Loss on disposal group remeasurement	13	-	(646)
Remeasurements of pension benefit obligations	18	1,075	301
Total items that will not be reclassified to profit or loss		**988**	**(345)**
Items that may be reclassified subsequently to profit or loss			
Change in fair value of available-for-sale financial assets		-	(136)
Total items that may be reclassified subsequently to profit or loss		**-**	**(136)**
Total other comprehensive (loss)/income for the year		**988**	**(481)**
Total comprehensive (loss)/income for the year		**(1,193)**	**4,200**
Attributable to:			
Shareholders of parent company		(547)	2,309
Non-controlling interest		(646)	1,891

(in millions of Russian Rubles unless noted otherwise)

	Share capital	Treasury shares	Available-for-sale financial assets	Revaluation reserve	Revaluation of pension benefit obligations	Retained losses	Total	Non-controlling interest	Total equity
Balance as at 01 January 2013	**22,717**	**(410)**	**82**	**8,518**	**1,150**	**(16,930)**	**15,127**	**8,957**	**24,084**
Loss for the year	-	-	-	-	-	2,772	2,772	1,909	4,681
Change in fair value of available-for-sale financial assets	-	-	(82)	-	-	-	(82)	(54)	(136)
Impairment of revalued property, plant and equipment	-	-	-	(330)	-	-	(330)	(316)	(646)
Remeasurements of pension benefit obligations	-	-	-	-	176	-	176	125	301
Total comprehensive income for the year	**-**	**-**	**(82)**	**(330)**	**176**	**2,772**	**2,536**	**1,664**	**4,200**
Transfer of revaluation reserve to retained earnings	-	-	-	(57)	-	57	-	-	-
Dividends declared	-	-	-	-	-	-	-	(4)	(4)
Balance as at 31 December 2013	**22,717**	**(410)**	**-**	**8,131**	**1,326**	**(14,101)**	**17,663**	**10,617**	**28,280**
Balance as at 01 January 2014	**22,717**	**(410)**	**-**	**8,131**	**1,326**	**(14,101)**	**17,663**	**10,617**	**28,280**
Loss for the year	-	-	-	-	-	(1,071)	(1,071)	(1,110)	(2,181)
Impairment of revalued property, plant and equipment	-	-	-	(45)	-	-	(45)	(42)	(87)
Remeasurements of pension benefit obligations	-	-	-	-	569	-	569	506	1,075
Total comprehensive loss for the year	**-**	**-**	**-**	**(45)**	**569**	**(1,071)**	**(547)**	**(646)**	**(1,193)**
Transfer of revaluation reserve to retained earnings	-	-	-	(63)	-	63	-	-	-
Dividends declared earlier unclaimed up to expiry date	-	-	-	-	-	-	-	1	1
Balance as at 31 December 2014	**22,717**	**(410)**	**-**	**8,023**	**1,895**	**(15,109)**	**17,116**	**9,972**	**27,088**

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
(Loss)/profit before income tax		**(2,704)**	**1,970**
Depreciation of property, plant and equipment	23	7,289	5,174
Impairment of property, plant and equipment		1,746	-
Loss from disposal of property, plant and equipment		-	4,804
Loss on disposal group remeasurement	23	474	(143)
Finance expenses, net	24	5,513	5,167
Impairment of accounts receivable, net	23	3,635	1,778
Loss/(profit) from associates		10	(109)
Curtailment in pension plan		(501)	(1,609)
Other (income)/expenses		(29)	171
Operating cash flows before working capital changes, income tax paid and changes in other assets and liabilities		**15,433**	**17,203**
Working capital changes:			
Increase in accounts receivable and prepayments		(3,784)	(2,644)
Increase in inventories		(448)	(1,734)
(Decrease)/increase in accounts payable and accruals		(403)	2,465
Increase in other taxes payable		600	540
Increase in other non-current assets		(585)	(109)
Increase in other non-current liabilities		908	200
Income tax received		732	49
Net cash generated in operating activity		**12,453**	**15,970**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(16,722)	(13,497)
Proceeds from sale of property, plant and equipment		2,827	294
Interest received		593	346
Investment in bank deposits		(869)	(3,572)
Redemption of bank deposits		879	5,103
Net cash used in investing activity		**(13,292)**	**(11,326)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt		57,154	94,429
Repayment of debt		(44,723)	(90,876)
Interest paid		(6,694)	(5,748)
Dividends paid		-	(1)
Finance lease payments		(634)	(715)
Net cash generated / (used in) by financing activities		**5,103**	**(2,911)**
Foreign exchange difference influence		757	-
Increase in cash and cash equivalents		**5,021**	**1,733**
Cash and cash equivalents at the beginning of the year	**10**	**7,552**	**5,819**
Cash and cash equivalents at the end of the year	**10**	**12,573**	**7,552**

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 December 2014 OJSC RusHydro owns 84.39 percent of the Company (as at 31 December 2013 84.39 percent). 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 (hereinafter Far East), 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 legal, tax and normative legislation system of the Russian Federation continues to develop and is subject to varying interpretations. Decline in oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals have had and may continue to have a negative impact on the Russian economy, including weakening of the Russian Ruble and making it harder to raise international funding.

During 2014 year:

- exchange rate set by the Central Bank of the Russian Federation fluctuated between RR 32.6587 and RR 67.7851 per USD and between RR 45.0559 and RR 84.5890 per Euro;
- key interest rate set by the Central Bank of the Russian Federation increased from 5.5 percent p.a. to 17.0 percent p.a. including an increase from 12.0 percent p.a. to 17.0 percent p.a. on 16 December 2014.

Currently the financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014:

- exchange rate set the Central Bank of the Russian Federation fluctuated between RR 56.2376 per USD and RR 69.6640 per USD and between RR 64,6232 and RR 78,7900 per Euro;
- key interest rate set by the Central Bank of the Russian Federation decreased from 17.0 percent p.a. to 14.0 percent p.a.;
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates;
- in January 2015 Russia's credit rating was downgraded by Fitch Ratings to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade for the first time in a decade. In February 2015 Moody's Investors Service also downgraded Russia's sovereign rating one notch below investment grade to Ba1. Fitch Ratings still have Russia as investment grade. However, all these rating agencies indicated a negative outlook, meaning further downgrades are possible.

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 reviewed the possible impairment of the Group's fixed assets taking into account the current economic situation and its prospects (Note 7).

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.

Note 2. Summary of significant accounting policies

Basis of preparation. These consolidated financial statements ("Financial statements") have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") and its interpretations. The Financial Statements have been prepared under the historical cost convention, as modified by financial instruments initial recognition of which is measured at fair value, the revaluation of property, plant and equipment and available-for-sale financial assets and financial instruments carried at fair value through profit and loss.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with Russian standards of accounting (hereinafter referred to as "RSA"). The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources (Note 27).

Functional and presentation currency. The national currency of the Russian Federation is the Russian Ruble (RR), which is the functional currency of the Group entities and the currency in which these Financial Statements are presented.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis at the non-controlling interest's proportionate share of net assets of the acquiree.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excluding acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between the Group's entities are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction directly in equity.

Acquisition of subsidiaries from parties under common control. Acquisition of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated.

Investments in associates. Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as a share of a result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, and (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. The Group uses such valuation techniques of fair value which are the most acceptable in the circumstances and as much as possible use the observable basic data.

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- level 3 measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

For disclosure of information on fair value the Group classified assets and liabilities on the basis of an appropriate level of hierarchy of fair value as it is stated above.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Incremental costs - costs that would not be incurred, if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties levied on the transfer of property. Transaction costs do not include premiums or discounts on debt, financing costs, internal administrative costs or storage costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument.

Classification of financial assets. Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Description of financial instruments described below.

Loans and receivables. The Group holds mainly financial assets categorized as "loans and receivables" which are represented by unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

All other financial assets are included in the *available-for-sale* category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or securities prices.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

Available-for-sale financial assets. Available-for-sale financial assets are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale financial assets. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Impairment of financial assets carried at amortised cost. A financial asset is impaired only if there is objective evidence of impairment as a result of event that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred: (i) any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems; (ii) the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains; (iii) the counterparty considers bankruptcy or a financial reorganisation; (iv) there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or (v) the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year. . Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the profit or loss for the year.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other current highly liquid investments with original maturities of three months or less in accordance with terms of agreement. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Foreign currency. Monetary assets and liabilities, which are held by the Group's entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Rubles at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss for the year.

As at 31 December 2014, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between Russian Ruble and US Dollar (hereinafter referred to as "USD") was RR 56.26: USD 1.00 (31 December 2013: RR 32.73: USD 1.00), between Russian Ruble and Euro was RR 68.34: EUR 1.00 (31 December 2013: RR 44.97: EUR 1.00).

Property, plant and equipment. Property, plant and equipment are stated at revalued amounts less accumulated depreciation and provision for impairment (where required). Office buildings and land owned by the Group are stated at cost.

Property, plant and equipment are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising from revaluation of property, plant and equipment are credited to other comprehensive income, unless there is a decrease of the reserve previously recognised in the income statement. Decreases that offset previous increases of caring value of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to the consolidated income statement as an impairment loss. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset, and net book value is remeasured at fair value. The revaluation surplus included in equity is transferred directly to retained earnings when revaluation surplus is realised on disposal of the asset.

The Group charges deferred tax liabilities directly to other comprehensive income in respect of revaluation of property, plant and equipment that are recorded directly in other comprehensive income.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Depreciation on the assets under reconstruction and modernisation ceases if reconstruction period is estimated to take more than one year.

Social assets are not capitalised as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method over their estimated useful lives.

The estimation of the useful life of a fixed asset is subject to management's judgment, which is formed with the operating experience of similar assets, and other factors. While determining the useful life of an object management considers the expected usage, estimated technical obsolescence, physical depreciation, the terms of guarantees provision as well as the actual conditions of the asset usage. Changes in any of these conditions or estimates may result in adjustments of depreciation charge in future periods, which could affect profit figure as reported in the consolidated financial statements.

The useful lives of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful lives are accounted for as a change in an accounting estimate prospectively. Useful life of property, plant and equipment is assessed as critical accounting estimate and judgment in applying accounting policy.

The revised average useful life of revalued assets by type of facility, in years, were as follows:

Type of facility	**Average useful life starting from 1 January 2011**
Production buildings	25-80
Facilities	10-100
Plant and equipment	5-40
Other	3-30

Depreciation is charged once an asset is available for service. Land and assets under construction are not depreciated.

Impairment of property, plant and equipment. Impairment reviews for property, plant and equipment are carried out when there is an indication that impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts (Note 7). If such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. Fair value less costs to sell represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less cost to sell.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (i) the assets are available for immediate sale in their present condition; (ii) the Group's management approved and initiated an active programme to locate a buyer; (iii) the assets are actively marketed for a sale at a reasonable price; (iv) the sale is expected within one year; and (v) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current and / or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than 12 months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal group as a whole is measured at the lower of carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised. Reclassified financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Disposal groups or non-current assets that ceases to be classified as held for sale are measured at the lower of (i) its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale, and (ii) its recoverable amount at the date of the subsequent decision not to sell.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted at the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantially enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities in respect of undistributed profits of its subsidiaries and jointly controlled companies of the Group as there is no probability that temporary differences will be reversed in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Debt. Debt is recognised initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly differs from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest rate method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated income statement as an interest expense over the period of the debt obligation.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Interest payments capitalised as part of the cost of an assets are classified as cash outflows from financing activities.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Pension and post-employment benefits. *Defined benefit pension plans.* The Group also operates a defined benefit plan that covers the majority of its employees. Defined benefit plans estimate the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised actuarial gains or losses.

The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from remeasurement of pension benefit obligations are recognised in other comprehensive income. Past service cost is immediately recognised in profit or loss within operating expenses.

Other liabilities to employees after the termination of their employment. Group pays a one-time financial assistance in connection with the achievement of the employees of the anniversary of age. The size of these payments usually dependent on one or more factors such as age, years of service and minimum wage rates that are used in the Group's companies. Actuarial gains and losses arising from adjustments and changes in actuarial assumptions for the calculation of liabilities for these types of payments are recognized as income or loss in the consolidated income statement in the period in which they arise. Otherwise the accounting of these obligations is similar to accounting for defined pension benefit obligations.

Defined contribution plans. For defined contribution plans, the Group pays contributions and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes in the consolidated income statement.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so that as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

Revenue recognition. Revenue is recognised on delivery of electricity and heat, provision of access to capacity, supply of non-utility services, completion of technological connection and on dispatch of goods during the period. Revenue amounts are presented exclusive of value added tax.

Government grants. Grants from the government represent compensation for the expenses incurred in the current period and are recognised as income at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are included in cash flows from operating activities.

Earnings per share. Preference shares can’t be repurchased and are classified as shares participating in profit distribution. The earnings per ordinary share are determined by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

***Treasury shares*.** Where the Company or its subsidiaries purchase the Company’s equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company’s owners until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company’s owners.

Dividends. Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared (approved by shareholders) before or at the end of the reporting period. Dividends are disclosed when they are declared after the end of the reporting period, but before the consolidated financial statements are authorised for issue.

Social expenditure. To the extent that the Group’s contributions to social programs benefit the community at large without creating constructive obligations to provide such benefits in the future, they are recognised in the income statement as incurred.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the Consolidated Financial Statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the Consolidated Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of non-financial assets. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated income statement to the extent it exceeds any previous revaluation surplus held in equity. An impairment loss recognised for an asset in prior years may be reversed if there has been a positive change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Accounting for impairment of non-financial assets includes impairment of property, plant and equipment and investments in associates.

The effect of these critical accounting estimates and assumptions is disclosed in Note 7.

Recognition of deferred tax assets. At each reporting date management assesses recoverability of deferred tax assets arising from operating losses and asset impairments in the context of the current economic environment, particularly when current and expected future profits have been adversely affected by market conditions. Management considers first the future reversal of existing deferred tax liabilities and then considers future taxable profits when evaluating deferred tax assets. The assessment is made on a taxpayer basis.

Management considered the recoverability of recognised deferred tax assets, including those on tax losses carried forward, as high. The effect of these critical accounting estimates and assumptions is disclosed in Note 15.

Useful life of property, plant and equipment. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets and other factors. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, warranty terms as well as the environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates which can affect the reported income.

Control over subsidiaries. As at 31 December 2014 the Group owns 49.37% of the voting shares of OJSC Yakutskenergo and 49.00% of the voting shares of OJSC Magadanenergo, in spite of this management believes that it has control over the activities of OJSC Yakutskenergo and OJSC Magadanenergo since it is able to provide the majority of votes at the shareholders meeting as besides OJSC RusHydro the remainder of the shares distributed among a large number of shareholders, the individual contribution of each of which is not material.

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

Note 3. New accounting pronouncements

The following new standards and interpretations became effective from 1 January 2014:

"Offsetting Financial Assets and Financial Liabilities" – Amendments to IAS 32 *(issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).* The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. The amended standard did not have any material impact on the Group's consolidated financial statements.

"Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities" *(issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).* The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amended standard did not have any material impact on the Group's consolidated financial statements.

IFRIC 21 – "Levies" *(issued on 20 May 2013 and effective for annual periods beginning 1 January 2014).* The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have a material impact on on the Group's consolidated financial statements.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" *(issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period).* The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amended standard did not have any material impact on the Group's consolidated financial statements.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" *(issued in June 2013 and effective for annual periods beginning 1 January 2014).* The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have any material impact on the Group's consolidated financial statements.

The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later approved for adoption in the Russian Federation and which the Group has not early adopted:

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 *(issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).* This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group does not expect the amendment to have significant impact on its consolidated financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 *(issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).* In this amendment, the IASB has clarified 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. The Group does not expect the amendment to have significant impact on its consolidated financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" *(issued in November 2013 and effective for annual periods beginning 1 July 2014).* The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any significant impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2012 *(issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below*). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a "vesting condition" and to define separately "performance condition" and "service condition". The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (i) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (ii) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (i) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (ii) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ("the management entity"), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2013 *(issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).* The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers *(issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017).* The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The amendment is not expected to have any significant impact on the Group's consolidated financial statements.

The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later that are not yet adopted in the Russian Federation and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" *(amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).* Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a"'three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 *(issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).* These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2014 *(issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).* The amendments impact four standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Disclosure Initiative Amendments to IAS 1 *(issued in December 2014 and effective for annual periods on or after 1 January 2016).* The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The amendment is not expected to have any significant impact on the Group's consolidated financial statements.

(in millions of Russian Rubles unless noted otherwise)

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 *(issued in December 2014 and effective for annual periods on or after 1 January 2016).* The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The amendment is not expected to have any significant impact on the Group's consolidated financial statements.

Note 4. Principal subsidiaries and non-controlling interest

All subsidiaries are incorporated and operate in the Russian Federation. The following are the principal subsidiaries of the Group as at 31 December 2014 and 31 December 2013.

	31 December 2014		31 December 2013	
Name	**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	64.39
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.

Difference between the ownership interest and voting interest represents the effect of preference shares and / or effects of indirect ownership.

Non-controlling interest. Summarised financial information related to subsidiaries with significant for Group amount of non-controlling interest as at 31 December 2014 and 31 December 2013, are presented below. All subsidiaries operate in the Russian Federation.

	Year ended and as at 31 December 2014		Year ended and as at 31 December 2013	
	DEK Group	**Yakutskenergo Group**	**DEK Group**	**Yakutskenergo Group**
Percent of non-controlling interest	48.92%	50.63%	48.92%	50.63%
Percent of voting rights, attributable to non-controlling interest	48.87%	50.63%	48.87%	50.63%
Profit/(loss), attributable to non-controlling interest	(2,073)	713	90	1,056
Changes in other comprehensive income, attributable to non-controlling interest	349	55	(267)	3
Carrying value of non-controlling interest	1,948	5,715	3,642	4,945
Dividends declared earlier unclaimed up to expiry date	-	2	-	-
Current assets	23,606	11,602	25,156	10,748
Non-current assets	55,445	17,816	53,356	15,545

(in millions of Russian Rubles unless noted otherwise)

Current liabilities	44,109	10,556	33,058	7,474
Non-current liabilities	35,805	8,566	42,103	10,212
Revenue	100,807	26,929	91,216	22,839
Profit/(loss)	(4,311)	1,120	1,516	1,816
Total comprehensive income/(loss)	(3,591)	1,229	1,528	1,822
Cash flows	**(88)**	**25**	**2,128**	**29**
Including:				
Cash generated by operating activities	7,296	2,278	6,979	3,304
Cash used in investing activities	(6,951)	(2,263)	(6,541)	(2,492)
Cash generated by financing activities	(433)	10	1,690	(783)

The rights of the non-controlling shareholders of the presented subgroups are determined by the Federal Law ‘On Joint Stock Companies’ and the charter documents of OJSC DEK and OJSC Yakutskenergo.

Note 5. 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.
- Segment “Subroup 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.

Depreciation of property, plant and equipment of Segment Group DEK for the twelve months ended 31 December 2014 includes depreciation of OJSC DRSK. For the twelve months ended 31 December 2013 depreciation of fixed assets of OJSC DRSK was not charged as OJSC DRSK was classified as disposal group.

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.

Sales between segments are on normal commercial terms.

Segment information for the years ended 31 December 2014 and 31 December 2013 and as at 31 December 2014 and 31 December 2013 is presented below.

(in millions of Russian Rubles unless noted otherwise)

Year ended 31 December 2014	Subgroup DEK	Subgroup Kamchatskenergo	Subgroup Magadanenergo	Subgroup Sakhalinenergo	Subgroup Yakutskenergo	Other	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	**163,716**	**10,555**	**10,956**	**7,780**	**36,216**	**3,380**	**232,603**	**(82,317)**	**150,286**
including:									
from external companies:	*93,026*	*10,446*	*10,447*	*7,734*	*26,448*	*2,185*	*150,286*	-	**150,286**
sales of electricity	*57,190*	*4,524*	*6,143*	*6,142*	*19,309*	*821*	*94,129*	-	**94,129**
sales of capacity	*3,944*	-	-	-	-	*324*	*4,268*	-	**4,268**
heat sales	*19,754*	*5,618*	*3,566*	*1,114*	*3,862*	-	*33,914*	-	**33,914**
other revenue	*12,138*	*304*	*738*	*478*	*3,277*	*1,040*	*17,975*	-	**17,975**
from intersegment and intercompany operations	*70,690*	*109*	*509*	*46*	*9,768*	*1,195*	*82,317*	*(82,317)*	**-**
Government grants	419	4,418	2,555	716	4,023	282	12,413	-	**12,413**
Expenses (excluding depreciation and other non-monetary items)	(155,903)	(14,133)	(13,177)	(7,203)	(35,354)	(4,028)	(229,798)	82,497	**(147,301)**
including:									
from intersegment and intercompany operations	*(59,540)*	*(131)*	*(359)*	*(316)*	*(11,107)*	*(92)*	*(71,545)*	*71,545*	**-**
EBITDA*	**8,232**	**840**	**334**	**1,293**	**4,885**	**(366)**	**15,218**	**180**	**15,398**
Depreciation of property, plant and equipment	(4,725)	(149)	(223)	(773)	(1,094)	(420)	(7,384)	95	**(7,289)**
Other non-monetary items	(2,912)	(1,277)	(175)	(63)	(686)	(529)	(5,642)	352	(5,290)
including:									
curtailment in pension plan and pension payment (Note 18)	*501*	-	-	-	-	-	*501*	-	**501**
loss on disposal group remeasurement and impairment of property, plant and equipment	*(640)*	*(963)*	*(143)*	-	-	-	*(1,746)*	-	**(1,746)**
accrual of impairment for accounts receivable, net	*(2,635)*	*(315)*	*(37)*	*(105)*	*(595)*	*(40)*	*(3,727)*	*92*	**(3,635)**
profit on disposal of property, plant and equipment, net	*(202)*	*1*	*5*	*42*	*(91)*	*(489)*	*(734)*	*260*	**(474)**
profit from subsidiary disposal	*64*	-	-	-	-	-	*64*	-	**64**
Operating profit	**595**	**(586)**	**(64)**	**457**	**3,105**	**(1,315)**	**2,192**	**627**	**2,819**
Finance income	-	-	-	-	-	-	-	-	**1,438**
Finance expenses	-	-	-	-	-	-	-	-	**(6,951)**
Share of income of associates	-	-	-	-	-	-	-	-	**(10)**
Profit before income tax	-	-	-	-	-	-	-	-	**(2,704)**
Total income tax (expense)/benefit	-	-	-	-	-	-	-	-	**523**
Profit for the period	-	-	-	-	-	-	-	-	**(2,181)**
Capital expenditure**	**8,116**	**421**	**1,656**	**1,241**	**3,371**	**4,681**	**19,486**	**-**	**19,486**
31 December 2014									
Non-current and current debt	**(51,017)**	**(5,666)**	**(2,003)**	**(4,272)**	**(8,566)**	**(6,470)**	**(77,994)**	**-**	**(77,994)**

(in millions of Russian Rubles unless noted otherwise)

Year ended 31 December 2013	**Subgroup DEK**	**Subgroup Kamchatskenergo**	**Subgroup Magadanenergo**	**Subgroup Sakhalinenergo**	**Subgroup Yakutskenergo**	**Other**	**Total segments**	**Unallocated adjustments and intercompany operations**	**TOTAL**
Revenue	**152,079**	**10,152**	**11,067**	**7,509**	**32,865**	**2,991**	**216,663**	**(77,067)**	**139,596**
including:									
from external companies:	*87,266*	*10,058*	*10,600*	*7,439*	*22,387*	*1,846*	*139,596*	-	**139,596**
sales of electricity	*53,992*	*4,144*	*6,015*	*5,861*	*16,013*	*1,028*	*87,053*	-	**87,053**
sales of capacity	*2,786*	-	-	-	-	-	*2,786*	-	**2,786**
heat sales	*19,128*	*5,664*	*3,691*	*1,140*	*3,381*	-	*33,004*	-	**33,004**
other revenue	*11,360*	*250*	*894*	*438*	*2,993*	*818*	*16,753*	-	**16,753**
from intersegment and intercompany operations	*64,813*	*94*	*467*	*70*	*10,478*	*1,145*	*77,067*	*(77,067)*	**-**
Government grants	2,705	3,761	2,301	606	3,591	269	13,233	-	**13,233**
Expenses (excluding depreciation and other non-monetary items)	(145,336)	(13,133)	(11,690)	(6,903)	(32,487)	(3,407)	(212,956)	77,159	**(135,797)**
including:									
from intersegment and intercompany operations	*(56,606)*	*(148)*	*(351)*	*(387)*	*(10,218)*	*(110)*	*(67,821)*	*67,821*	**-**
EBITDA*	**9,448**	**780**	**1,678**	**1,212**	**3,969**	**(147)**	**16,940**	**92**	**17,032**
Depreciation of property, plant and equipment	(2,430)	(153)	(147)	(791)	(1,257)	(476)	(5,254)	80	**(5,174)**
Other non-monetary items	**(3,534)**	**(1,454)**	**7**	**(11)**	**49**	**(6)**	**(4,949)**	**119**	**(4,830)**
including:									
loss on disposal group remeasurement and impairment of property, plant and equipment, net	*(4,804)*	-	-	-	-	-	*(4,804)*	-	**(4,804)**
accrual of impairment for accounts receivable, net	*(314)*	*(1,466)*	*(75)*	*(22)*	*(7)*	*(13)*	*(1,897)*	*119*	**(1,778)**
profit on disposal of property, plant and equipment, net	*(25)*	*12*	*82*	*11*	*56*	*7*	*143*	-	**143**
curtailment in pension plan (Note 18)	*1,609*	-	-	-	-	-	*1,609*	-	**1,609**
Operating profit	**3,484**	**(827)**	**1,538**	**410**	**2,761**	**(629)**	**6,737**	**291**	**7,028**
Finance income	-	-	-	-	-	-	-	-	**853**
Finance expenses	-	-	-	-	-	-	-	-	**(6,020)**
Share of income of associates	-	-	-	-	-	-	-	-	**109**
Profit before income tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,970**
Total income tax (expense)/benefit	-	-	-	-	-	-	-	-	**2,711**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,681**
Capital expenditure**	**6,419**	**314**	**1,102**	**1,587**	**3,910**	**3,489**	**16,821**	-	**16,821**
31 December 2014									
Non-current and current debt	**(43,367)**	**(4,717)**	**(890)**	**(4,248)**	**(7,106)**	**(4,346)**	**(64,674)**	**-**	**(64,674)**

* EBITDA is determined as earnings before interest, tax, depreciation and amortisation and increased by the amount of loss (reduced by the amount of income) from revaluation of financial investments and others non-cash items.

(in millions of Russian Rubles unless noted otherwise)

Note 6. 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 years ended 31 December 2014 and 31 December 2013 and balances outstanding as at 31 December 2014 and 31 December 2013 with a number of government-related banks (Note 16). All transactions are carried out on market rates.

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 revenue for the year ended 31 December 2014 (for the year ended 31 December 2013: approximately 32 percent). The Group's purchases from government-related entities comprised approximately 25 percent of total expenses on purchased for the year ended 31 December 2014 (for the year ended 31 December 2013: 25 percent).

Transactions with key management of the Group. Remuneration is paid to the members of the Management Board of the Company and the subsidiaries for their services in full time management positions. The remuneration 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 compensation and key performance indicators are approved by the Board of Directors.

Remuneration to the members of the Board of Directors of the Company and the major subsidiaries is paid for attending Board of Directors.

Main compensation for key management of the Group generally is short-term excluding future payments under pension plans with defined benefits. Pension benefits for key management of the Group are provided on the same terms as for the rest of employees.

Total remuneration paid to the General directors and the members of the Management Boards and Boards of Directors of the Company and the major subsidiaries for the year ended 31 December 2014 was RR 721 million (for the year ended 31 December 2013: RR 605 million).

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

At 31 December 2014 and at 31 December 2013 the outstanding balances with OJSC RusHydro and entities controlled by it were as follows:

	31 December 2014	31 December 2013
Accounts receivable and prepayments	35	11
Non-current debt	23,359	18,721
Current debt and current portion of non-current debt	139	1,460
Accounts payable and accruals	1,203	1,029

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

	Year ended 31 December 2014	Year ended 31 December 2013
Sales of electricity	242	187
Other revenue	110	485
Fixed assets sales	2,754	-
Expenses	7,868	7,422
Finance expenses	2,226	892

(in millions of Russian Rubles unless noted otherwise)

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

	31 December 2014	31 December 2013
Accounts receivable and prepayments	2	6
Non-current debt	23,359	18,721
Current debt and current portion of non-current debt	139	1,460
Accounts payable and accruals	715	692

	Year ended 31 December 2014	Year ended 31 December 2013
Other revenue	2	5
Expenses	5,530	5,454
Finance expenses	2,226	892

Associates. Outstanding balances with associates were as follows:

	31 December 2014	31 December 2013
Accounts receivable and prepayments	293	188
Accounts payable and accruals	351	1

The income and expenses items with associates:

	Year ended 31 December 2014	Year ended 31 December 2013
Revenue	2,344	1,956
Expenses	303	-

(in millions of Russian Rubles unless noted otherwise)

Note 7. Property, plant and equipment

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

Revalued/initial cost	**Production buildings**	**Facilities**	**Machinery and equipment**	**Construction in progress**	**Other**	**Total**
Opening balance as at 31 December 2013	**26,473**	**51,984**	**48,888**	**16,996**	**6,985**	**151,326**
Revaluation reserve (net)	-	-	(131)	-	-	(131)
Additions	90	1,635	635	16,642	484	19,486
Transfers	1,380	4,801	4,861	(11,187)	145	-
Reclassification to disposal group (Note 13)	(14)	(1)	(50)	(130)	(41)	(236)
Disposals	(117)	(110)	(563)	(3,488)	(263)	(4,541)
Closing balance as at 31 December 2014	**27,812**	**58,309**	**53,640**	**18,833**	**7,310**	**165,904**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2013	**(11,374)**	**(25,652)**	**(24,192)**	**(2,557)**	**(2,911)**	**(66,686)**
Impairment charge	(244)	(452)	(692)	(457)	(7)	(1,852)
Depreciation charge	(831)	(2,600)	(3,222)	-	(728)	(7,381)
Transfers	(260)	(254)	(200)	756	(42)	-
Reclassification of disposal group (Note 13)	12	1	25	92	32	162
Disposals	85	62	374	86	136	743
Closing balance as at 31 December 2014	**(12,612)**	**(28,895)**	**(27,907)**	**(2,080)**	**(3,520)**	**(75,014)**
Net book value as at 31 December 2014	**15,200**	**29,414**	**25,733**	**16,753**	**3,790**	**90,890**
Net book value as at 31 December 2013	**15,099**	**26,332**	**24,696**	**14,439**	**4,074**	**84,640**
Revalued/initial cost	**Production buildings**	**Facilities**	**Machinery and equipment**	**Construction in progress**	**Other**	**Total**
Opening balance as at 31 December 2012	**21,263**	**29,128**	**30,787**	**11,095**	**5,274**	**97,547**
Additions	79	530	1,280	12,101	614	14,604
Transfers	757	3,181	4,213	(8,407)	256	-
Reclassification from disposal group (Note 13)	4,700	19,258	12,781	2,490	1,061	40,290
Disposals	(326)	(113)	(173)	(283)	(220)	(1,115)
Closing balance as at 31 December 2013	**26,473**	**51,984**	**48,888**	**16,996**	**6,985**	**151,326**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2012	**(9,135)**	**(15,579)**	**(15,942)**	**(2,619)**	**(1,908)**	**(45,183)**
Depreciation charge	(598)	(1,564)	(2,635)	-	(659)	(5,456)
Transfers	(136)	(203)	(195)	545	(11)	-
Reclassification from disposal group (Note 13)	(1,569)	(8,423)	(5,551)	(515)	(447)	(16,505)
Disposals	64	117	131	32	114	458
Closing balance as at 31 December 2013	**(11,374)**	**(25,652)**	**(24,192)**	**(2,557)**	**(2,911)**	**(66,686)**
Net book value as at 31 December 2013	**15,099**	**26,332**	**24,696**	**14,439**	**4,074**	**84,640**
Net book value as at 31 December 2012	**12,128**	**13,549**	**14,845**	**8,476**	**3,366**	**52,364**

Included in the above carrying amount of RR 2,027 million (for the year ended 31 December 2013: RR 2,198 million) represents cost of assets relating to office buildings of the Group which are stated at non-revalued deemed cost.

Assets under construction represent the carrying amount of property, plant and equipment that has not yet been put into operation and advances issued to construction companies and suppliers of property, plant and equipment. As at 31 December 2014 such advances amounted to RR 2,187 million (as at 31 December 2013: RR 235 million).

Additions to assets under construction include capitalized borrowing costs of RR 945 million (capitalized borrowing cost for the year ended 31 December 2013: RR 867 million). The capitalization rate was 8.98 percent (for the year ended 31 December 2013: 8.51 percent).

Other property, plant and equipment include motor vehicles, land plots, computer equipment, office fixtures and other equipment.

Assets held under finance lease are included in property, plant and equipment with a carrying value of RR 2,152 million as at 31 December 2014 (RR 1 577 million as at 31 December 2013). Assets held under finance lease mainly represented by machinery and equipment.

Assets held under leaseback are included in property, plant and equipment with a carrying value of RR 624 million as at 31 December 2014 (as at 31 December 2013: RR 641 million).

The carrying amount of property, plant and equipment as at 31 December 2014 does not differ materially from their fair value at the end of the reporting period. The Group's management determines the fair value of property, plant and equipment according to the following procedure.

The Group's property, plant and equipment are mainly represented by specialised property: the Group's key assets are represented by unique power generating, heat and grid equipment manufactured under certain technical specifications for each power plant; such equipment is rarely sold in the market.

The Group's management determines the value of the specialised property on a regular basis, using the cost approach. The cost approach is based on the economic concept which implies that a buyer will pay for an asset not more than it would cost to develop or obtain another asset with the same functionality. The total costs of replacement or reproduction of the analysed asset resulting from such measurement are decreased by the amount of physical, functional and economic depreciation.

The replacement costs are determined based on specialised reference books, regulatory documents, construction rates, manufacturer’s prices in effect as of the valuation date; physical and functional depreciation is measured based on the age of the assets, their actual condition and operating mode.

To determine the economic depreciation of specialised assets, the Group's management calculates the recoverable amount using the income approach. It is based on discounted cash flow method, and the Group uses certain assumptions when building the cash flow forecast. In particular, these assumptions include capital expenditures, discount rates for each cash generating unit, etc. The Group's management determines the forecast horizon, and net cash inflows from the asset's operation are calculated for each period of this horizon. The recoverable amount of the cash generating unit is determined by recalculating the discounted net cash flows. The Group's management believes that the Company's branches and subsidiaries constitute separate cash generating units.

When the recoverable amount of the cash generating unit is higher than the replacement cost less physical and functional depreciation of property, plant and equipment included in this cash generating unit, it is concluded that there is no economic depreciation. If this is not the case, the economic impairment is determined as the difference between the recoverable amount and the replacement cost less physical and functional depreciation.

(in millions of Russian Rubles unless noted otherwise)

The following key assumptions were used when the cash flow testing was performed for the years ended 31 December 2014 and 31 December 2013:

Key assumptions used in impairment test	Year ended 31 December 2014	Year ended 31 December 2013
Information used	Actual operating results for the year 2014 and business plans for 2015-2020	Actual operating results for the 2013 and business plans for 2014-2020
Forecast period	11-25 years (2015-2040)	11-25 years (2014-2039)
Consolidated forecast of electricity and capacity consumption		Based on management forecast
Forecast of electricity, capacity and heat tariffs		Based on current system of tariff regulation (RAB, indexing method or “Cost+” method) limited by the Ministry of Economic Development of the Russian Federation
Forecast of capital expenditures		Based on the management forecasts of maintenance capital expenditures for modernization and reconstruction program
WACC	15.1-17.8%	14%

Impairment as at 31 December 2014

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 December 2014 such indicators were revealed.

Recoverable amounts of cash-generating units were recalculated, for those where the discounted net cash flows have positive amounts as at 31 December 2014 recoverable amounts of cash-generating units were considered equal to its carrying amount and no additional impairment is determined.

Cash-generating units with negative discounted net cash flows as at 31 December 2014 considered having recoverable amounts equal to the cost of non-specialised assets with the price they could be sold in the market, all the carrying amount of specialised assets was charged as economic impairment.

During the period the Group recognised additional impairment loss in the consolidated income statement for OJSC Kamchatskenergo RR 812 million, OJSC DGK RR 640 million, OJSC UESK RR 152 million and OJSC Chukotenergo RR 142 million.

Additional charge for the consolidated statement of comprehensive income amounted to RR 130 million relates to OJSC DGK.

Impairment as at 31 December 2013

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 December 2013 no such indicators were revealed.

Sensitivities of property, plant and equipment value to reasonably possible changes in the discount rate, production volumes and level of electricity and capacity tariffs applied at the date of the statement of financial position relative to the impairment assumptions made by the Group, with all other variables held constant is presented in the Note 29. For each revalued class of property, plant and equipment the carrying amount that would have been recognised if the assets had been carried under the cost model is as follows (net of property, plant and equipment of assets held for sale and a disposal group):

	Production buildings	Facilities	Machinery and equipment	Construction in progress	Other	Total
Net book value as at 31 December 2014	11,441	23,642	26,751	16,959	799	79,592
Net book value as at 31 December 2013	11,131	20,843	24,526	14,645	814	71,959

(in millions of Russian Rubles unless noted otherwise)

Pledged fixed assets

As at 31 December 2014 3 million plant and equipment have been pledged as collateral for borrowings (RR nill million as at 31 December 2013) (Note 16).

Operating lease

The Group leases a number of land areas owned by local governments and production buildings under non-cancellable operating lease agreements. Land lease payments are determined by lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2014	31 December 2013
Less than one year	1,557	998
Between one year and five years	2,418	1,752
After five years	18,933	14,777
Total	**22,908**	**17,527**

The major parts are the land areas leased by the Group at the territories on which the Group's electric power stations, substations and other assets are located. According to the Land Code of the Russian Federation such land areas are limited in their alienability and cannot become private property. The Group's leases typically run for an initial period of 5 – 49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

Note 8. Investments in associates

The tables below demonstrate the movements in the carrying value of the Group's interests in associates during years ended 31 December 2014 and 31 December 2013:

Associates	Carrying value as at 31 December 2013	Share of profit / (loss) of associates	Carrying value as at 31 December 2014
OJSC Magadanelectroset	13	14	27
OJSC ENIN	31	0	30
OJSC Sakhalinskaya energy company	960	(81)	879
OJSC Sakhalinskaya kommunalnaya company	42	57	100
Total	**1,046**	**(10)**	**1,036**

Associates	Carrying value as at 31 December 2012	Share of profit / (loss) of associates	Carrying value as at 31 December 2013
OJSC Magadanelectroset	14	(1)	13
OJSC ENIN	29	2	31
OJSC Sakhalinskaya energy company	894	66	960
OJSC Sakhalinskaya kommunalnaya company	-	42	42
Total	**937**	**109**	**1,046**

In 2014 and 2013 the Group did not receive dividends from associates.

As at and for the year ended 31 December 2014 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Associates	Ownership, %	Assets	Liabilities	Revenue	Profit / (loss)
OJSC Magadanelectroset	45.91	502	(443)	1,355	30
OJSC ENIN	30.42	175	(73)	272	1
OJSC Sakhalinskaya energy company	8.01	12,035	(1,063)	1	(97)
OJSC Sakhalinskaya kommunalnaya company	25	1,494	(1,096)	2,434	229
Total		**14,206**	**(2,675)**	**4,062**	**163**

(in millions of Russian Rubles unless noted otherwise)

As at and for the year ended 31 December 2013 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Associates	Ownership, %	Assets	Liabilities	Revenue	Profit / (loss)
OJSC Magadanelectroset	45.91	416	(360)	1,233	(3)
OJSC ENIN	30.42	223	(123)	587	6
OJSC Sakhalinskaya energy company	8.98	11,898	(1,207)	1	437
OJSC Sakhalinskaya kommunalnaya company	25	1,120	(950)	2,138	(30)
Total		**13,657**	**(2,640)**	**3,959**	**410**

Changes in associates

OJSC Sakhalinskaya energy company

As at 31 December 2013 due to additional share issue Group's share in OJSC Sakhalinskaya energy company has decreased to 8.98 percent. OJSC Sakhalinskaya energy company is recognised as associate company to the Group as at 31 December 2013 as the Company has its representative on the board of directors of OJSC Sakhalinskaya energy company, participates in policy-making processes and provides essential technical information related to capital construction activities and operation of generating facilities.

As at 31 December 2014 due to additional share issue Group's share in OJSC Sakhalinskaya energy company has decreased to 8.01 percent. OJSC Sakhalinskaya energy company is recognised as associate company to the Group as at 31 December 2014 based on factors listed above. Financial results of OJSC Sakhalinskaya energy company is not material for Consolidated Statement of Profit and Loss of the Group.

Note 9. Other non-current assets

	31 December 2014	31 December 2013
Non-current accounts receivable - financial assets	539	366
Other non-current assets	1,315	992
Total other non-current assets	**1,854**	**1,358**

Fair value of non-current accounts receivable approximates its carrying value.

Note 10. Cash and cash equivalents

	31 December 2014	31 December 2013
Cash at bank	5,176	4,462
Cash equivalents	7,382	3,077
Cash in hand	14	13
Total cash and cash equivalents	**12,572**	**7,552**

Cash and cash equivalents held as at 31 December 2014 and 31 December 2013 comprised current bank deposits with original maturities of three months or less in accordance with the agreements. The credit quality of cash and cash equivalents balances summarised below. Ratings are actual as at 31 December 2014.

(in millions of Russian Rubles unless noted otherwise)

	Rating*	Rating agency	31 December 2014	31 December 2013
Cash at banks				
OJSC Sberbank of Russia	Ba1	Moody's	3,673	2,555
JSC Gazprombank	BB+	Standard & Poor's	985	990
OJSC Kamchatkomargoprombank	-	-	164	30
PJSC Rosbank	BBB-	Fitch	114	234
OJSC Bank FK Otkritie	Ba3	Moody's	54	290
Other			186	360
Total cash at banks			**5,176**	**4,462**
Bank deposits				
CJSC AKB Peresvet	B+	Standard & Poor's	6,258	2,483
JSC Gazprombank	BB+	Standard & Poor's	550	67
OJSC Sberbank of Russia	Ba1	Moody's	549	-
PJSC Rosbank	BBB-	Fitch	21	-
OJSC Bank of Moscow	BBB	Standard & Poor's	-	523
Other			4	4
Total cash equivalents			**7,382**	**3,077**

**Bank ratings as at 31 December 2014. Bank ratings of several banks have decreased as on the date of these Consolidated Financial Statements.*

The line Cash and cash equivalents as at 31 December 2014 in the Consolidated Statement of Cash Flows included RR 1 million of cash and cash equivalents held by the disposal group classified as held for sale (Note 13).

Note 11. Accounts receivable and prepayments

	31 December 2014	31 December 2013
Trade receivables	26,488	24,249
Provision for impairment of trade receivables	(8,907)	(7,747)
Trade receivables, net	**17,581**	**16,502**
Other receivables	1,707	1,663
Provision for impairment of other receivables	(486)	(606)
Other receivables, net	**1,221**	**1,057**
Advances to suppliers and prepayments	2,583	3,322
Provision for impairment of advances to suppliers and other prepayments	(349)	(125)
Advances to suppliers and other prepayments, net	**2,234**	**3,197**
Value added tax recoverable	2,101	2,049
Total accounts receivable and advances given	**23,137**	**22,805**

The majority of trade receivables, which are neither past due nor impaired, could be aggregated in several groups based on similarities in their credit quality: receivables of industrial consumers, public sector entities, population.

The provision for impairment of accounts receivable has been determined based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows (Note 2). Management of the Group believes that the Group's subsidiaries will be able to realise the net receivable amount through direct collections and other non-cash settlements, and the recorded value approximates their fair value.

Movements in the impairment provision for current and non-current trade and other receivables are as follows:

	2014	2013
As at 1 January	8,353	7,428
Charge for the year	3,608	2,986
Reversal of impairment	(1,219)	(1,467)
Trade receivables written-off as uncollectible	(1,350)	(606)
Impairment provision as at 31 December	**9,392**	**8,341**
Reclassification from disposal group (Note 13)	-	12
As at 31 December	**9,392**	**8,353**

As at 31 December 2014 current and non-current trade and other receivables in the amount of

(in millions of Russian Rubles unless noted otherwise)

RR 6,859 million (31 December 2013: RR 5,914 million) were past due but not impaired. These receivables relate to a number of independent customers (without related parties) without recent history of default.

The ageing analysis of these receivables is as follows:

	31 December 2014	Provision as at 31 December 2014	31 December 2013	Provision as at 31 December 2013
Not past due	12,208	(104)	12,021	(119)
Less than 3 months	3,829	(82)	2,838	(70)
More than 3 and less than 12 months	3,899	(791)	3,711	(1,331)
More than one year	8,418	(8,414)	7,599	(6,833)
Total	**28,354**	**(9,392)**	**26,169**	**(8,353)**

Trade and other accounts receivables relates to the Level 3 fair value measurement hierarchy described in Note 2.

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

Note 12. Inventories

	31 December 2014	31 December 2013
Fuel	13,226	13,326
Materials and supplies	4,531	4,489
Spare parts	1,279	987
Other materials	381	310
Total inventories, gross	**19,417**	**19,112**
Provision for inventory obsolescence	(33)	(76)
Total inventories	**19,384**	**19,036**

Note 13. Assets and liabilities of a disposal group classified as held for sale

In the end of 2014 the decision management of the Group decided to sell 100% of shares of OJSC Daltehenergo and OJSC GRMZ. The selling price was determined by a professional appraiser. As as at 31 December 2014 in accordance with management professional judgment the probability of selling of shares OJSC Daltehenergo and OJSC GRMZ was assessed as high, the Group has classified the equity investments in OJSC Daltehenergo and OJSC GRMZ as assets of disposal group held for sale.

	Note	31 December 2013
Non-current assets		
Property, plant and equipment		75
Other non-current assets		109
Total non-current assets		**184**
Current assets		
Cash and cash equivalents	10	1
Trade receivables	11	33
Advances to suppliers and prepayments	11	10
Other receivables	11	15
Inventories	12	43
Other current assets		25
Total current assets		**127**
Assets of disposal group		**311**

	Note	31 December 2013
Non-current liabilities		
Other non-current liabilities		7
Total non-current liabilities		**7**
Current liabilities		
Current debt and current portion of non-current debt	16	1
Trade accounts payable		389
Advances received		37
Other taxes payable		62
Total current liabilities		**489**
Liabilities of disposal group		**496**

The decision of the Russian Government No. 1174-p dated 07 July 2011 defined the transfer of OJSC DRSK (Subsidiary of OJSC RAO Energy System of East) to OJSC Federal Grid Company. As as at 31 December 2011 and 31 December 2012 in accordance with management professional judgment the probability of shares transfer was assessed as high, the Group has classified the equity investments in OJSC DRSK as assets of disposal group held for sale.

The changes to the Federal Law “On Electric Power Industry" and article 81 of Federal Law “On Joint Stock Companies” were made at the end of year 2013. According to these changes, lease of OJSC Federal Grid Company’s grids is prolonged till 1 July 2029 for territorial grid companies in the number of regions of the Russian Federation including the Amur Region and Jewish Autonomous Region where OJSC DRSK operates. Thus the Group could compensate shortfall in income which has arisen due to withdrawal of some consumers from “the last mile” agreements, and the Group’s intentions concerning the transfer of the shares have changed.

Based on the above facts assets and liabilities of OJSC DRSK were recognised at recoverable amount at the date of the decision not to sell and the loss in amount of RR 5,450 million was recognised: RR 4,804 million in profit and loss for the period, RR 646 million in other comprehensive loss (less deferred income tax effect in amount of RR 144 million).

Note 14. Equity

	Number of outstanding and fully paid shares (in thousands)	in thousands of Russian Rubles		
		Ordinary shares	Preference shares	Total share capital
As at 31 December 2014	45,433,972	21,679,411	1,037,575	22,716,986
As at 31 December 2013	45,433,972	21,679,411	1,037,575	22,716,986

Company was established on 1 July 2008 and as at 31 December 2014 and as at 31 December 2013 all Company’s shares were fully paid (Note 1).

Nominal value per each share equals 0.5 RR for ordinary share and for preference share.

Ordinary shares and preference shares. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders meetings of the Company.

Holders of preference shares are entitled to receive annual dividends. Preference shares are entitled to a minimum annual dividend of 10 percent of net statutory profit of the Company divided by number of shares which constitute 25 percent from equity of the Company on the date of state registration of the Company as a legal entity.

The amount of dividends paid on each preference share may not be less than the amount of dividends paid on each ordinary share. If the preferred dividends are not paid or are paid not in full, then the preference shares give their holders the right to vote on all matters within the competence of the general meeting of shareholders, since the meeting following the annual meeting, which, irrespective of the reasons it was decided not to pay dividends or decided on partial payment of preferred dividends. Such a voice is terminated with the first payment of dividends on such shares in full.

Dividends. In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Standards of Accounting. For 2014, the current year net statutory income for the Company as reported in the published annual statutory reporting forms was RR 4,475 million (2013: RR 7,595 million loss) and the closing balance of the accumulated profit including the current year net statutory profit totaled RR 11,111 million (2013: RR 6,636 million). However, legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for distributable reserves in these financial statements.

Company did not declare dividends relating to years ended 31 December 2013 and 31 December 2012.

There are no dividends relating to the year ended 31 December 2013 (for the year ended 31 December 2012: RR 4 million) were declared by the subsidiaries in favor of minority holders.

Treasury shares.Treasury shares as at 31 December 2014 amount to 820,851,279 ordinary shares in the amount of RR 410 million (31 December 2013: 820,851,279 ordinary shares in the amount of RR 410 million). The shares were acquired in the process of issuing shares, registered 07 February 2013.

(in millions of Russian Rubles unless noted otherwise)

Treasury shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company owned by the Group are actually controlled by the Group.

Note 15. Income Taxes

Income tax expense recorded in profit or loss comprises the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Current income tax income	465	181
Deferred income tax benefit	58	2,530
Total income tax	**523**	**2,711**

During years ended 31 December 2014 and 31 December 2013 most entities of the Group were subject to tax rates of 20 percent on taxable profit.

Reconciliation of effective tax rate:

	Year ended 31 December 2014	Year ended 31 December 2013
Profit/(loss) before tax	**(2,704)**	**1,970**
Theoretical income tax charge at statutory tax rate of 20 percent	541	(394)
Tax effect of items which are not deductible or assessable for taxation purposes	(524)	(555)
Deferred tax recognised in respect of reclassification OJSC DRSK from disposal group (Note 13)	-	1,873
Usage of deferred tax assets written-off in previous periods	(567)	1,241
Tax losses of previous periods carried forward	1,422	1,046
Other	(349)	(500)
Total income tax charge	**523**	**2,711**

Tax effect of items which are not deductible or assessable for taxation purposes relates mainly to the effect on social and charity costs (RR 525 million for the year ended 31 December 2014 and RR 268 million for the year ended 31 December 2013). Remaining amounts consist of other individually insignificant items which are not deductible for taxation purpose and relate to consulting services, disposal of investments and others.

The data of adjusted tax declarations for previous periods were accounted for in the year ended 31 December 2014 as a result of cameral tax inspections. Major adjustments relate to tax accounting for additional expenses, decreasing taxable profit, and excluding from tax base for previous periods amounts of special-purpose financing. Tax effect from adjusted tax loss amounted to RR 1,422 million was reported. It includes RR 1,280 million used to decrease current income tax expenses for the year ended 31 December 2014 and RR 142 million increasing deffered tax assets balance as at 31 December 2014.

Deferred tax assets not recognised in the year ended 31 December 2014 relate mainly to accumulated impairment loss accrued on property, plant and equipment for the years before 1 January 2014. The deferred tax assets are not recognised if recoverability of deferred tax assets is not estimated as high.

Deferred taxes analysis by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 percent.

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may be accrued even where there is a consolidated tax loss.

Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the entity has legal rights to offset it.

The tax effect of the movements in the temporary differences for the years ended 31 December 2014 and 31 December 2013 are:

(in millions of Russian Rubles unless noted otherwise)

	31 December 2013	Charged to the income statement	Charged to the other comprehensive income	Subsidiaries disposal and reclassification to disposal group	31 December 2014
Deferred income tax liabilities	**(2,019)**	**(681)**	**(116)**	**-**	**(2,817)**
Property, plant and equipment	(3,325)	(881)	22	-	(4,184)
Trade and other receivables	(51)	(59)	-	-	(110)
Other	(19)	89	(138)	-	(68)
Deferred tax offset	*1,376*	*170*	-	-	*1,546*
Deferred income tax assets	**500**	**739**	**(131)**	**(121)**	**987**
Property, plant and equipment	57	181	-	(25)	213
Trade and other receivables	277	269	-	(11)	535
Inventory	5	22	-	-	27
Other long-term liabilities	528	100	(131)	(1)	496
Accounts payable and other taxes payable	353	(15)	-	(4)	334
Losses carried forward	498	59	-	(78)	479
Other	158	293	-	(2)	449
Deferred tax offset	*(1,376)*	*(170)*	-	-	*(1,546)*

	31 December 2012	Charged to the income statement	Charged to the other comprehensive income	Reclassifica-tion (disposal group)	31 December 2013
Deferred income tax liabilities	**(2,159)**	**2,907**	**192**	**(2,959)**	**(2,019)**
Property, plant and equipment	(686)	162	158	(2,959)	(3,325)
Trade and other receivables	(8)	(43)	-	-	(51)
Net assets of disposal group	(1,873)	1,873	-	-	-
Other	(32)	(21)	34	-	(19)
Deferred tax offset	*440*	*936*	-	-	*1,376*
Deferred income tax assets	**320**	**(377)**	**(75)**	**632**	**500**
Property, plant and equipment	59	(2)	-	-	57
Trade and other receivables	203	61	-	13	277
Inventory	17	(12)	-	-	5
Other long-term liabilities	214	79	(75)	310	528
Accounts payable and other taxes payable	140	207	-	6	353
Losses carried forward	22	274	-	202	498
Other	105	(48)	-	101	158
Deferred tax offset	*(440)*	*(936)*	-	-	*(1,376)*

Total amount of deductible temporary differences, occurred in separate Group companies, for which deferred income tax assets have not been recognised by the Group comprises RR 25,629 million and RR 22,795 million as at 31 December 2014 and 31 December 2013 respectively.

Corresponding deferred tax assets occurred in separate Group companies, which have not been recognised by the Group reduced from RR 4,559 million as at 31 December 2013 to RR 5,126 million as at 31 December 2014 due to increase in tax losses to be carried forward in respect for adjusted tax declarations and current period losses and increase in impairment provision for receivables under financial accounting.

(in millions of Russian Rubles unless noted otherwise)

Current portion of deferred tax liabilities in the amount of RR 110 million as at 31 December 2014 (as at 31 December 2013: RR 70 million) and RR 926 million as at 31 December 2014 (as at 31 December 2013: RR 683 million) of deferred tax assets represents the amounts to be recovered during the next year.

Note 16. Current and non-current debt

Non-current borrowings

	Effective interest rate	Year of maturity	31 December 2014	31 December 2013
OJSC RusHydro	8.00-8.83%/ MosPrime+3.09/ MosPrime+3.87%	2014-2021	23,359	18,721
OJSC Sberbank of Russia	7.98-12.72%	2015-2018	14,561	15,231
OJSC Bank of Moscow	MosPrime+2.20%	2015	7,536	7,721
EBRD	MosPrime+1.50%/ MosPrime+3.45%	2015-2025	6,068	3,814
OJSC Bank VTB	8.39%	2015-2018	4,522	4,522
PJSC Rosbank	8.99-11.10%	2015-2016	4,481	1,561
JSC Gazprombank	8.63-9.00%	2015-2016	1,179	2,000
OJSC Rosselkhozbank	15.00-16.00%	2015-2018	78	103
Other		2015-2036	509	495
Finance lease liabilities			2,133	1,679
Total			**64,426**	**55,847**
Less current portion of loans and borrowings	7.98-16.00%		(18,147)	(5,263)
Less current finance lease liabilities	8.70-21.00%		(755)	(634)
Total Non-current borrowings			**45,524**	**49,950**

Current borrowings

	Effective interest rate	31 December 2014	31 December 2013
OJSC Bank VTB	7.97-11.00%	4,921	929
PJSC Rosbank	7.50-15.60%	4,096	3,416
OJSC Sberbank of Russia	7.20-12.31%	2,830	2,244
PJSC RRDB	9.50-11.70%	727	-
CJSC Raiffeisenbank	8.69-10.84%	598	-
OJSC Rosselkhozbank	10.25%	227	294
OJSC RusHydro	8.00-8.83%/ MosPrime+3.09/ MosPrime+3.87%	139	1,460
JSC Gazprombank	8.63-9.00%	26	224
Other		4	260
Total		**13,568**	**8,827**
Current portion of loans and borrowings	7.98-16.00%	18,147	5,263
Current finance lease liabilities	8.70-21.00%	755	634
Total current borrowings and current part of non-current borrowings	-	**32,470**	**14,724**

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

Property, plant and equipment in amount of RR 3 million have been pledged as collateral for borrowings as at 31 December 2014 (as at 31 December 2013 RR nil).

As at 31 December 2014 and 31 December 2013 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 December 2014 and as at 31 December 2013

(in millions of Russian Rubles unless noted otherwise)

Management believes that fair value of current and non-current floating rate loans and borrowings approximate their carrying value, fair value of fixed rate loans and borrowings disclosed in Note 29 (Level 3 in fair value measurement hierarchy described in Note 2).

Finance lease liabilities. Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2014	822	1,119	3,169	5,110
Less future interest charges	(67)	(282)	(2,628)	(2,977)
Present value of minimum lease payments at 31 December 2014	**755**	**837**	**541**	**2,133**
Minimum lease payments at 31 December 2013	678	1,381	-	2,059
Less future interest charges	(44)	(336)	-	(380)
Present value of minimum lease payments at 31 December 2013	**634**	**1,045**	**-**	**1,679**

Note 17. Other non-current liabilities

Other non-current liabilities	31 December 2014	31 December 2013
Pension benefit obligations (Note 18)	4,416	5,792
Assets retirement obligation (Reserve for ash dump)	589	693
Other non-current liabilities	1,619	737
Total other non-current liabilities	**6,624**	**7,222**

Other non-current liabilities includes non-current advances received under the contracts of technological connection to the grids, in the amount of RR 971 million as at 31 December 2014 and RR 107 million as at 31 December 2013.

Decrease in reserve for ash dump obligations due to discount rate rise resulted in impairment reversal recognised in the consolidated income statement in amount of RR 107 million and charge for the consolidated statement of comprehensive income amounted to RR 22 million.

Note 18. Pension benefit obligations

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

Amounts recognised in the Group's Consolidated Statement of Financial Position:

	31 December 2013	31 December 2011
Fair value of plan assets	(195)	(139)
Present value of defined benefit obligations	4,618	5,931
Net liability	**4,423**	**5,792**

(in millions of Russian Rubles unless noted otherwise)

As at 31 December 2014 pension benefit obligations includes liabilities of disposal group amounted RR 7 million (nil as at 31 December 2013) (Note 13).

Movements in the net liability for the years ended 31 December 2014 and 31 December 2013 are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Total
At 1 January 2014	**5,931**	**(139)**	**5,792**
Including assets related to the OJSC DGK agreements	-	(35)	(35)
Current service cost	261	-	261
Interest expense/(income)	464	(14)	450
Past service cost	103	-	103
Curtailment pension payment	(501)	-	(501)
Curtailment in pension plan	(1)	-	(1)
Remeasurement effects (for other long-term benefits):			
Actuarial loss – Change in demographic assumption	10	-	10
Actuarial gain – Change in finance assumption	(46)	-	(46)
Actuarial loss – Experience adjustment	72	-	72
Charged to the profit and loss for the year ended 31 December 2014	**362**	**(14)**	**348**
Remeasurement effects (post-employment benefits):			
Actuarial loss - Change in demographic assumptions	77	-	72
Actuarial gain - Change in financial assumptions	(1,600)	-	(1,600)
Actuarial loss - Experience adjustments	180	4	184
Charged to the other comprehensive income for the year ended 31 December 2014 (before income tax)	**(1,343)**	**4**	**(1,343)**
Contributions	-	(88)	(88)
Benefit payments (Funding NSPF pensions)	(83)	77	(6)
Benefit payments (Non-funded pension plan)	(243)	-	(243)
At 31 December 2014	**4,624**	**(195)**	**4,424**

On 21 July 2014, OJSC DGK decided to reduce payments to the pensioners. As a result the Group recognized RR 501 million gain for the year ended 31 December 2014 (Note 23).

(in millions of Russian Rubles unless noted otherwise)

	Present value of defined benefit obligations	Fair value of plan assets	Total
At 1 January 2013	**7,491**	**(206)**	**7,285**
Including assets related to the OJSC DEK agreements	-	(2)	(2)
Excluding assets related to the OJSC DGK agreements	-	69	69
Current service cost	301	-	301
Interest expense/(income)	431	(13)	418
Past service cost	19	-	19
Curtailment in pension plan	(1,609)	-	(1,609)
Remeasurement effects (for other long-term benefits):			
Actuarial loss – Change in demographic assumption	11	-	11
Actuarial gain – Change in finance assumption	(18)	-	(18)
Actuarial loss – Experience adjustment	(28)	-	(28)
Charged to the profit and loss for the year ended 31 December 2013	**(893)**	**54**	**(839)**
Remeasurement effects (post-employment benefits):			
Actuarial loss - Change in demographic assumptions	221	-	221
Actuarial gain – Change in finance assumption	(827)	-	(827)
Actuarial loss – Experience adjustment	222	9	231
Charged to the other comprehensive income for the year ended 31 December 2013 (before income tax)	**(383)**	**9**	**(374)**
Contributions	-	(42)	(42)
Benefit payments (Funding NSPF pensions)	(53)	46	(7)
Benefit payments (Non-funded pension plan)	(231)	-	(231)
At 31 December 2013	**5,931**	**(139)**	**5,792**

On 29 March 2013, OJSC DGK decided to cancel the defined benefit pension plan. The pension liability of cancelled plan was RR 2,458 million. As a consequence of defined benefit pension plan cancellation was the RR 315 million growth of one time retirement payments liabilities and the RR 534 million growths of periodical retirement payments liabilities. These payments were included in collective agreement and were alternatives for defined benefit pension plan. As a result the Group recognized RR 1,609 million curtailment gain for the year ended 31 December 2013 (Note 23).

Principal actuarial assumptions as at 31 December are presented below:

	31 December 2014	31 December 2013
Discount rate	13.00%	7.90%
Future salary increases	8.50%	6.60%
Inflation rate	7.00%	5.10%
Staff turnover	Statistical data of the Group for 3 years and employees' age	
Mortality	Russia-2011*	Russia-2011

* Including the down adjustments to the probability of death, calculated on the basis of mortality statistics for the Group for 2012-2013.

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2014 is presented below:

Actuarial assumption	Change in assumption	Net liability charge, mln RUR	Net liability charge, %
Discount rate	1%	(351)	-8%
	-1%	409	9%
Future salary increase rate	1%	216	5%
	-1%	(190)	-4%
Inflation rate	1%	217	5%
	-1%	(186)	-4%
Staff turnover	3%	(466)	-10%
	-3%	682	15%
Mortality	10%	(63)	-1%
	-10%	68	1%

(in millions of Russian Rubles unless noted otherwise)

The Group expects to contribute RR 282 million to the defined benefit plans during the year beginning 01 January 2015.

Weighted average duration of defined benefit obligation of the Group is 9 years.

Pension plan characteristics and related risk. The Group incur defined pension benefit obligations on the territory of the Russian Federation. Pension plan includes following benefits: one time retirement benefits, benefits for funeral expenses in case of death of the employee or retiree, financial assistance for retiree, pensions for former employees paid through the non-state pension fund.

Size of benefits depends on employees' experience, wages in the last years before retirement, a predetermined fixed amount or a combination of these factors.

These benefits are usually indexed to inflation or increase of wage for benefits, which depend on wage rate. Exception is for pensions paid through the non-state pension fund, which are not indexed to inflation on the payment stage (the non-state pension fund bears all risks after retirement).

Besides the inflation risk pension plans of the Group are also subject to risks of death and probability of survival.

Plan assets in the non-state pension fund are regulated by legislation and practice.

The Group and non-state pension fund are responsible for plan management, including investment decisions and contribution schedule.

Non-state pension fund has diversified investment portfolio. All non-state pension fund investments of pension savings and pension reserves are made under the current legislation of the Russian Federation, which strictly regulates possible range of financial instruments and their use limits. These measures are also lead to diversification and reduction of investment risks.

The Group fully conveys to the non-state pension fund obligation to pay lifelong non-state pensions to former employees of the Group, funding those commitments by granting pensions. Thus the Group insures risks associated with payment of private pensions (investment risks and the probability of survival).

Note 19. Accounts payable and accruals

	31 December 2014	31 December 2013
Trade payables	16,805	16,052
Other accounts payable	1,504	1,702
Total financial liabilities within accounts payable and accruals	**18,309**	**17,754**
Advances received	6,069	7,296
Settlements with personnel	5,205	4,891
Dividends payable	9	12
Total accounts payable and accruals	**29,592**	**29,953**

Payables to suppliers of property, plant and equipment of RR 2,035 million (as at 31 December 2013: RR 1,566 million) included in current accounts payable.

Accounts payables and accruals related to Level 3 in fair value measurement hierarchy described in Note 2.

Note 20. Other taxes payable

	31 December 2014	31 December 2013
Value added tax	3,572	3,450
Insurance contribution	1,517	1,291
Property tax	437	337
Other taxes	454	399
Total other taxes payable	**5,980**	**5,477**

(in millions of Russian Rubles unless noted otherwise)

Note 21. Revenue

	Year ended 31 December 2014	Year ended 31 December 2013
Sales of electricity and capacity	98,397	89,839
Heat and hot water sales	33,914	33,004
Other revenue	17,975	16,753
Total revenue	**150,286**	**139,596**

Other revenue for the years ended 31 December 2014 and 31 December 2013 mainly includes revenue from transportation of electricity and heat, repair and construction services, technological connection, resale of goods, rentals and communication services.

Note 22. 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 year ended 31 December 2014 the Group received government subsidies in amount of RR 12,413 million (for the year ended 31 December 2013 in the amount of RR 13,233 million) in the following subsidised territories: Kamchatka territory, Republic of Sakha (Yakutiya), Magadan region, Chukotka autonomous district and other Far East regions.

Government grants received by the Group during 2013 include OJSC DRSK subsidies related to compensation of losses of 2011 year due to suspension of lease of electricity facilities of national grid amounted RR 2,313 million (nil for the year ended 31 December 2014).

(in millions of Russian Rubles unless noted otherwise)

Note 23. Expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Fuel expenses	46,606	44,460
Employee benefit expenses (including payroll taxes and pension benefit expenses)	45,756	40,309
Electricity distribution expenses	14,374	12,894
Purchased electricity and capacity	11,592	9,635
Other materials	7,571	7,059
Depreciation of property, plant and equipment	7,289	5,174
Third parties services, including:		-
Purchase and transportation of heat power	2,878	2,699
Repairs and maintenance	2,481	2,382
Services of subcontracting companies	1,605	3,364
Security expenses	1,274	1,159
Rent	1,267	1,095
Consulting, legal and information expenses	984	688
Transportation expenses	717	700
Services of SO-CDU, NP Council Market, CFS	656	953
Agency expenses	591	538
Insurance cost	286	208
Other third parties services	2,837	2,199
Accrual of impairment and write-off for accounts receivable, net	3,635	1,778
Taxes other than on income	2,063	1,618
Water usage expenses	1,789	1,743
Social charges	787	535
Loss/(profit) on disposal of property, plant and equipment, net	474	(143)
Purchase of oil products for sale	425	718
Insurance indemnity	(290)	(19)
Curtailment in pension plan and pension payment	(501)	(1,609)
Other expenses	1,052	860
Total expenses	**158,198**	**140,997**

Note 24. Finance income / (expenses)

	Year ended 31 December 2014	Year ended 31 December 2013
Finance income		
Interest income	655	343
Foreign exchange gain	778	399
Other finance income	5	111
Finance income	**1,438**	**853**
Finance expense		
Interest expense	(6,178)	(5,008)
Finance lease expense	(96)	(255)
Finance expense related to discounting	(126)	(78)
Foreign exchange loss	(21)	(209)
Other finance expenses	(530)	(470)
Finance expenses	**(6,951)**	**(6,020)**

Note 25. Earnings per share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to shareholders by the weighted average number of ordinary and preference shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore the diluted earnings per share equal the basic earnings per share.

Profit or losses per share from continuing operations are calculated as follows:

	31 December 2014	31 December 2013
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
Loss attributable to ordinary and preference shareholders, thousand rubles	**(1,070,515)**	**2,772,427**
Basic and diluted loss per ordinary and preference share from loss attributable to the owners of the Company (in RR per share)	(0.0240)	0.0621

Note 26. 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.

Russian transfer pricing legislation was modified and effective from 1 January 2013. 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 period the Group's subsidiaries had controllable transactions and transactions, that could be considered as such with a high degree of certainty. The Management of the Group implements internal control procedures to apply requirements of transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. There is no practice in application of new principles at the moment, consequences of trials with tax authorities of the Group's transfer pricing cannot be reliably estimated therefore it may be significant to the financial results and operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Management believes that as at 31 December 2014 its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

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 December 2014 and 31 December 2013. The amount of environmental provision as at 31 December 2014 RR 653 million, including short term part RR 32 million (RR 693 million as at 31 December 2013, including short term part RR nil million) (Note 17).

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 (RR 64,670 million for the period 2014-2016).

Capital commitments of the Group as at 31 December 2014 are as follows: 2015 year – RR 33,600 million, 2016 year – RR 21,573 million, 2017 year – RR 15,914 million.

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

(in millions of Russian Rubles unless noted otherwise)

Note 27. Financial instruments and financial risk management

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 December 2014:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 9)	**539**	**-**	**539**
Non-current accounts receivable	539	-	539
Available-for-sale financial assets	**-**	**305**	**305**
Trade and other receivables (Note 11)	**18,802**	**-**	**18,802**
Trade receivables	17,581	-	17,581
Other receivables	1,221	-	1,221
Other current assets	**-**	**-**	**-**
Current deposits	-	-	-
Cash and cash equivalents (Note 10)	**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.

The following table provides a reconciliation of classes of financial assets with the measurement categories and the Group's maximum exposure to credit risk by class of assets as at 31 December 2013:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 9)	**366**	**-**	**366**
Non-current accounts receivable	366	-	366
Available-for-sale financial assets	**-**	**381**	**381**
Trade and other receivables (Note 11)	**17,559**	**-**	**17,559**
Trade receivables	16,502	-	16,502
Other receivables	1,057	-	1,057
Other current assets	**13**	**-**	**13**
Current deposits	13	-	13
Cash and cash equivalents (Note 10)	**7,552**	**-**	**7,552**
Total financial assets	**25,490**	**381**	**25,871**
Total non-financial assets	**111,807**	**-**	**111,807**
Total assets	**137,297**	**381**	**137,678**

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 risk management function within the Group is carried out in respect of financial risks, operational and legal risks. Financial risks include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are establishing risk limits, and then ensuring that exposure to risks stays within these limits and in case of exceeding these limits to impact on the risks. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize these risks.

The Group is exposed to industry risks in particular due to ongoing changes in the utilities industry due to the liberalization of the electricity and capacity markets. To manage the risk the Group seeks to establish favorable legal and regulatory framework for electricity and capacity markets. The Group has been actively involved in the preparation of regulations in the utilities industry, implemented by the Ministry of Energy of the Russian Federation, NP Council Market, FTS.

Credit risk. Credit risk is the risk of financial loss for the Group in the case of non-fulfillment by the contractor of the obligations on the financial instrument under the proper contract. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

There is no independent rating for the Group's customers and therefore the Group considers the credit quality of customers at the contract execution stage. The Group considers their financial position and credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection and to minimize losses.

To reduce the credit risk in the electricity and capacity markets the Group has introduced marketing policy and procedure to calculate internal ratings of counterparties in the regulated market, based on the frequency of default, and to establish limits based on the rating of the customer's portfolio.

The Group's management monitors past due balances of receivables and provides ageing analysis and other information about credit risk as disclosed in Note 11.

Financial assets neither past due, nor impaired represented by a pool of different customers, mainly consumers of electricity and heat energy with no history of default and high probability of payments, which credit quality is assessed as high.

Significant part of allowance was created for individually not homogeneous customers based on history of past payments and management's assessment of its recoverability.

Cash has been placed in the financial institutions, which are considered at time of deposit to have minimal risk of default. The Group approves a list of banks for depositing its cash and rules for making such deposits. The Group performs regular assessment of these financial institutions' financial position, monitors their ratings assigned by independent agencies as well as their other performance indicators.

The tables in Note 10 show deposits with banks and other financial institutions and their ratings at the end of the reporting period.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (i) interest bearing assets and liabilities, and (ii) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market fluctuations.

Interest rate risk. Changes in interest rates impact primarily the fair value of loans and borrowings. The interest rates on most significant loans and borrowings are fixed. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

As at 31 December 2014 the Group`s current assets are less than current liabilities on RR 12,834 million (as at 31 December 2013 current assets were less than current liabilities on RR 454 million).

The Group manages liquidity risk as follows:

- tariffs for electricity and heat are set on cost plus basis, which covered the major part of the Group's expenses;
- the Group received continuing strong support from Government in the form of grants received for compensation of low electricity tariff (Note 22);
- the Group considers the possibility of restructuring of current borrowings and loans to postpone the payments and increase liquidity;
- significant part of current liabilities is represented by advances received for future services and electricity supply, which also guarantees the demand on the Group's products.

The table below shows liabilities as at 31 December 2014 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments. Such undiscounted cash flows differ from the amount included in the Consolidated statement of financial position because the Consolidated statement of financial position amount is based on discounted cash flows.

(in millions of Russian Rubles unless noted otherwise)

The maturity analysis of financial liabilities as at 31 December 2014 is as follows:

	Less than 1 year	1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	5 years
Liabilities						
Current and non-current debt	5,703	13,278	5,347	9,819	19,641	18,215
Trade payables (Note 19)	16,805	-	-	-	-	-
Finance lease liabilities	822	441	358	192	128	3,169
Total future payments, including future principal and interest payments	**23,330**	**13,719**	**5,705**	**10,011**	**19,769**	**21,384**
Liabilities of disposal group classified as held for sale (Note 13)	**496**	**-**	**-**	**-**	**-**	**-**

The maturity analysis of financial liabilities as at 31 December 2013 is as follows:

	Less than 1 year	1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	5 years
Liabilities						
Current and non-current debt	18,492	23,312	6,246	3,711	21,614	6,788
Trade payables (Note 19)	16,052	-	-	-	-	-
Finance lease liabilities	678	755	327	235	64	-
Total future payments, including future principal and interest payments	**35,222**	**24,067**	**6,573**	**3,946**	**21,678**	**6,788**

Note 28. Management of capital

Compliance with the Russian legislation requirements is a key objective of the Group's capital risk management.

The following capital requirements have been established for joint stock companies by the legislation of the Russian Federation:

- share capital cannot be lower than thousand fold of minimal wage according to the Federal Law on the date of the company's registration;
- if net assets of the entity are less than share capital at the end of financial year next to the second financial year or every subsequent financial year, at the end of which net assets of the entity are less than share capital, entity must decrease its share capital to the value not exceeding its net assets or make a decision about liquidation of the company;
- if at the end of second financial year or every subsequent financial year net assets of the entity are less than minimum allowed share capital of the entity, such entity is subject to liquidation.

As at 31 December 2014 and 31 December 2013 the Company was in compliance with the above share capital requirements.

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The amount of capital that the Group managed as at 31 December 2014 equal to the Group's net assets was RR 27,088 million (31 December 2013: RR 28,280 million).

Note 29. Fair value of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

(in millions of Russian Rubles unless noted otherwise)

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.

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

	2014				2013			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets								
Available-for-sale financial assets	141	-	164	**305**	218	-	163	**381**
Non-current accounts receivable	-	-	539	**539**	-	-	366	**366**
Non-financial assets								,
Property, plant and equipment (excluding construction in progress, office buildings and land)	**-**	**-**	72,110	**72,110**	**-**	**-**	68,003	**68,003**
Total assets recurring fair value measurements	**141**	**-**	**72,813**	**72,954**	**218**	**-**	**68,532**	**68,750**

The Group had no liabilities measured at fair value as at 31 December 2014 and 31 December 2013.

The valuation technique, inputs used in the fair value measurement for significant Level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2014:

	Fair value	**Valuation technique**	**Significant unobservable inputs**	**Reaso-nable change**	**Sensitivity of fair value measu-rement**
Non-financial assets					
Property, plant and equipment (excluding construction in progress, office buildings and land)	72,110	Discounted cash flows	Production volumes	-0.50%	(2,083)
			Discount rate	0.50%	(4,445)
			Electricity and capacity prices	-1.00%	(3,823)
Total recurring fair value measurements at Level 3	**72,110**				**(10,451)**

The above tables discloses sensitivity to valuation inputs for property, plant and equipment as changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly.

There were no changes in valuation technique for Level 3 recurring fair value measurements during the years ended 31 December 2014 and 31 December 2013.

(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 December 2014 fair value of non-current fixed rate loans and borrowings comprises RR 22,689 million, its carrying value comprises RR 26,179 mln. As at 31 December 2013 fair value of non-current fixed rate loans and borrowings approximated their carrying value.

Note 30. Subsequent events

In January 2015 the Group has concluded agreements to sell 100 percent share in OJSC Daltechenergo and 90,81 percent share in OJSC GRMZ for RR 210 million and RR 25 million respectively. As at 31 December 2014 those subsidiaries were classified as assets and liabilities of disposal group held for sale.