# RUSHYDRO GROUP

## Consolidated Financial Statements prepared in accordance with IFRS with independent auditor's report

## As at and for the year ended 31 December 2014

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*Independent Auditor's Report*

To the Shareholders and Board of Directors of Open Joint Stock Company Federal Hydro-Generating Company – RusHydro (OJSC RusHydro)

We have audited the accompanying consolidated financial statements of OJSC RusHydro 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 reasonable 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 is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

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## 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

25 March 2015

Moscow, Russian Federation

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

Audited entity: OJSC RusHydro

Certificate of inclusion in the Unified State Register of Legal Entities № 1042401810494 issued on 26 December 2004

43 Dubrovinskogo Str., bldg. 1, Krasnoyarsk, Krasnoyarsk Territory, Russian Federation, 660017

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

## RusHydro 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 | 686,190 | 633,846 |
| Investments in associates and joint ventures | 8 | 14,032 | 30,301 |
| Available-for-sale financial assets | 9 | 4,132 | 5,794 |
| Deferred income tax assets | 16 | 5,355 | 4,066 |
| Other non-current assets | 10 | 25,021 | 24,976 |
| **Total non-current assets** | | **734,730** | **698,983** |
| **Current assets** | | | |
| Cash and cash equivalents | 11 | 34,394 | 34,472 |
| Income tax receivable | | 1,965 | 2,679 |
| Accounts receivable and prepayments | 12 | 48,012 | 45,385 |
| Inventories | 13 | 22,133 | 21,449 |
| Other current assets | 14 | 41,872 | 53,144 |
| | | **148,376** | **157,129** |
| Non-current assets and assets of disposal group classified as held for sale | | 664 | - |
| **Total current assets** | | **149,040** | **157,129** |
| **TOTAL ASSETS** | | **883,770** | **856,112** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 15 | 386,255 | 386,255 |
| Treasury shares | 15 | (26,092) | (10,662) |
| Share premium | | 39,202 | 39,202 |
| Retained earnings and other reserves | | 179,556 | 164,735 |
| **Equity attributable to the shareholders of OJSC RusHydro** | | **578,921** | **579,530** |
| Non-controlling interest | | 16,230 | 17,177 |
| **TOTAL EQUITY** | | **595,151** | **596,707** |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 16 | 35,891 | 35,066 |
| Non-current debt | 18 | 119,187 | 131,890 |
| Other non-current liabilities | 19 | 11,195 | 12,030 |
| **Total non-current liabilities** | | **166,273** | **178,986** |
| **Current liabilities** | | | |
| Current debt and current portion of non-current debt | 18 | 57,843 | 19,887 |
| Accounts payable and accruals | 20 | 51,558 | 49,473 |
| Current income tax payable | | 536 | 115 |
| Other taxes payable | 21 | 11,913 | 10,944 |
| | | **121,850** | **80,419** |
| Liabilities of disposal group classified as held for sale | | 496 | - |
| **Total current liabilities** | | **122,346** | **80,419** |
| **TOTAL LIABILITIES** | | **288,619** | **259,405** |
| **TOTAL EQUITY AND LIABILITIES** | | **883,770** | **856,112** |

Chairman of Management Board – General Director — E. V. Dod

Chief Accountant — D. V. Finkel

25 March 2015

(in millions of Russian Rubles unless noted otherwise)

| | Note | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|---|
| Revenue | 22 | 329,560 | 313,632 |
| Government grants | 23 | 12,428 | 13,246 |
| Operating expenses (excluding impairment losses) | 24 | (290,838) | (265,763) |
| **Operating profit excluding impairment losses** | | **51,150** | **61,115** |
| Impairment of property, plant and equipment | 7 | (8,884) | (18,995) |
| Impairment of accounts receivable, net | | (6,603) | (4,895) |
| Impairment of available-for-sale financial assets | 9 | (1,781) | (7,944) |
| Loss on remeasurement of net assets of subsidiary acquired exclusively with a view for resale | 2 | - | (4,804) |
| Impairment of long-term promissory notes | 10 | - | (1,633) |
| **Operating profit** | | **33,882** | **22,844** |
| Finance income | 25 | 9,319 | 9,328 |
| Finance costs | 25 | (10,668) | (9,542) |
| (Loss) / profit in respect of associates and joint ventures | 8 | (342) | 2,555 |
| **Profit before income tax** | | **32,191** | **25,185** |
| Total income tax expense | 16 | (8,060) | (4,192) |
| **Profit for the year** | | **24,131** | **20,993** |
| Attributable to: | | | |
| Shareholders of OJSC RusHydro | | 25,606 | 19,767 |
| Non-controlling interest | | (1,475) | 1,226 |
| Earnings per ordinary share for profit attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share) | 26 | 0.0689 | 0.0638 |
| Weighted average number of shares outstanding – basic and diluted (thousands of shares) | 26 | 371,494,140 | 309,873,684 |

(in millions of Russian Rubles unless noted otherwise)

| | Note | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|---|
| Profit for the year | | 24,131 | 20,993 |
| **Other comprehensive income / (loss), net of tax:** | | | |
| *Items that will not be reclassified to profit or loss* | | | |
| Impairment of revalued property, plant and equipment | 7 | (6,178) | (19,637) |
| Remeasurement of pension benefit obligations | 17 | 1,392 | 101 |
| Loss on remeasurement of net assets of subsidiary acquired exclusively with a view for resale | 2 | - | (646) |
| **Total items that will not be reclassified to profit or loss** | | **(4,786)** | **(20,182)** |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Loss arising on impaired available-for-sale financial assets | 9 | (121) | (289) |
| Accumulated loss on available-for-sale financial assets recycled to the Income Statement | 9 | 163 | 350 |
| Loss arising on available-for-sale financial assets | 9 | - | (647) |
| Other comprehensive loss | | (332) | (51) |
| **Total items that may be reclassified subsequently to profit or loss** | | **(290)** | **(637)** |
| **Other comprehensive loss for the year** | | **(5,076)** | **(20,819)** |
| **Total comprehensive income for the year** | | **19,055** | **174** |
| Attributable to: | | | |
| Shareholders of OJSC RusHydro | | 20,004 | (785) |
| Non-controlling interest | | (949) | 959 |

(in millions of Russian Rubles unless noted otherwise)

| | Note | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| **Profit before income tax** | | **32,191** | **25,185** |
| Depreciation of property, plant and equipment and intangible assets | 7, 24 | 21,340 | 18,218 |
| Loss on disposal of property, plant and equipment, net | 24 | 1,288 | 1,447 |
| Loss / (profit) in respect of associates and joint ventures | 8 | 342 | (2,555) |
| Gain on disposal of subsidiaries and associates | 24 | (28) | (517) |
| Finance income | 25 | (9,319) | (9,328) |
| Finance costs | 25 | 10,668 | 9,542 |
| Impairment of property, plant and equipment | 7 | 8,884 | 18,995 |
| Impairment of available-for-sale financial assets | 9 | 1,781 | 7,944 |
| Impairment of accounts receivable, net | | 6,603 | 4,895 |
| Curtailment in pension payment and pension plan | 17, 24 | (501) | (1,609) |
| Pension expenses | | 368 | 568 |
| Loss on remeasurement of net assets of subsidiary acquired exclusively with a view for resale | | - | 4,804 |
| Impairment of long-term promissory notes | 10 | - | 1,633 |
| Other loss / (income) | | 250 | (55) |
| **Operating cash flows before working capital changes, income tax paid and changes in other assets and liabilities** | | **73,867** | **79,167** |
| Working capital changes: | | | |
| Increase in accounts receivable and prepayments | | (8,085) | (4,312) |
| Increase in inventories | | (864) | (2,326) |
| Decrease in accounts payable and accruals | | (413) | (1,034) |
| Increase in other taxes payable | | 130 | 2,751 |
| Increase in other non-current assets | | (427) | (277) |
| Increase / (decrease) in other non-current liabilities | | 34 | (1,119) |
| Income tax paid | | (6,316) | (10,422) |
| **Net cash generated by operating activities** | | **57,926** | **62,428** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of property, plant and equipment | | (78,577) | (61,641) |
| Proceeds from sale of property, plant and equipment | | 116 | 356 |
| Investment in bank deposits and purchase of other investments | | (156,320) | (110,567) |
| Redemption of bank deposits and proceeds from sale of other investments | | 167,639 | 111,763 |
| Purchase of subsidiaries from third parties, net of cash acquired | | (86) | - |
| Contribution to share capital of associates and joint ventures | | (70) | (533) |
| Interest received | | 6,865 | 7,554 |
| Proceeds from sale of associates | | - | 1,913 |
| **Net cash used in investing activities** | | **(60,433)** | **(51,155)** |

(in millions of Russian Rubles unless noted otherwise)

| | Note | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Proceeds from current debt | 18 | 85,600 | 87,352 |
| Proceeds from non-current debt | 18 | 28,176 | 67,554 |
| Repayment of debt | 18 | (92,870) | (153,114) |
| Interest paid | | (13,708) | (13,580) |
| Dividends paid to the shareholders of OJSC RusHydro | | (5,127) | (3,586) |
| Dividends paid by subsidiaries to non-controlling interest holders | | (80) | (160) |
| Finance lease payments | | (900) | (1,194) |
| Proceeds from share issue | 15 | - | 22 |
| **Net cash generated / (used in) by financing activities** | | **1,091** | **(16,706)** |
| Foreign exchange gain on cash balances | | 1,338 | 48 |
| **Decrease in cash and cash equivalents** | | **(78)** | **(5,385)** |
| **Cash and cash equivalents at the beginning of the year** | | **34,472** | **39,857** |
| **Cash and cash equivalents at the end of the year** | **11** | **34,394** | **34,472** |

**RusHydro Group**
**Consolidated Statement of Changes in Equity**
(in millions of Russian Rubles unless noted otherwise)

| | Note | Share capital | Treasury shares | Share premium | Merger reserve | Foreign currency translation reserve | Revaluation reserve | Available-for-sale financial assets | Remeasu-rement of pension benefit obligation | Retained earnings | Equity attributable to shareholders of OJSC RusHydro | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2013** | | **317,637** | **(10,662)** | **39,202** | **(127,216)** | **17** | **218,757** | **514** | **920** | **75,917** | **515,086** | **25,319** | **540,405** |
| Profit for the year | | - | - | - | - | - | - | - | - | 19,767 | 19,767 | 1,226 | 20,993 |
| Loss arising on available-for-sale financial assets | 9 | - | - | - | - | - | - | (587) | - | - | (587) | (60) | (647) |
| Loss arising on impaired available-for-sale financial assets | 9 | - | - | - | - | - | - | (289) | - | - | (289) | - | (289) |
| Accumulated loss on available-for-sale financial assets recycled to the Income Statement | 9 | - | - | - | - | - | - | 350 | - | - | 350 | - | 350 |
| Remeasurement of pension benefit obligations | 17 | - | - | - | - | - | - | - | (45) | - | (45) | 146 | 101 |
| Impairment of revalued property, plant and equipment | 7 | - | - | - | - | - | (19,593) | - | - | - | (19,593) | (44) | (19,637) |
| Loss on remeasurement of net assets of subsidiary acquired exclusively with a view for resale | 2 | - | - | - | - | - | (337) | - | - | - | (337) | (309) | (646) |
| Other comprehensive loss | | - | - | - | - | (20) | - | - | - | (31) | (51) | - | (51) |
| **Total comprehensive income** | | **-** | **-** | **-** | **-** | **(20)** | **(19,930)** | **(526)** | **(45)** | **19,736** | **(785)** | **959** | **174** |
| Share issue | 15 | 68,618 | - | - | - | - | - | - | - | - | 68,618 | - | 68,618 |
| Transactions with the Government and companies under common control | 15 | - | - | - | (7,859) | - | - | - | - | 6,252 | (1,607) | (6,270) | (7,877) |
| Effect of changes in non-controlling interest | 15 | - | - | - | - | - | - | - | - | 1,812 | 1,812 | (2,671) | (859) |
| Dividends | 15 | - | - | - | - | - | - | - | - | (3,594) | (3,594) | (160) | (3,754) |
| Transfer of revaluation reserve to retained earnings | | - | - | - | - | - | (812) | - | - | 812 | - | - | - |
| **As at 31 December 2013** | | **386,255** | **(10,662)** | **39,202** | **(135,075)** | **(3)** | **198,015** | **(12)** | **875** | **100,935** | **579,530** | **17,177** | **596,707** |

## RusHydro Group
## Consolidated Statement of Changes in Equity
(in millions of Russian Rubles unless noted otherwise)

| | Note | Share capital | Treasury shares | Share premium | Merger reserve | Foreign currency translation reserve | Revaluation reserve | Available-for-sale financial assets | Remeasurement of pension benefit obligation | Retained earnings | Equity attributable to shareholders of OJSC RusHydro | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2014** | | **386,255** | **(10,662)** | **39,202** | **(135,075)** | **(3)** | **198,015** | **(12)** | **875** | **100,935** | **579,530** | **17,177** | **596,707** |
| Profit for the year | | - | - | - | - | - | - | - | - | 25,606 | 25,606 | (1,475) | 24,131 |
| Loss arising on impaired available-for-sale financial assets | 9 | - | - | - | - | - | - | (121) | - | - | (121) | - | (121) |
| Accumulated loss on available-for-sale financial assets recycled to the Income Statement | 9 | - | - | - | - | - | - | 163 | - | - | 163 | - | 163 |
| Remeasurement of pension benefit obligations | 17 | - | - | - | - | - | - | - | 846 | - | 846 | 546 | 1,392 |
| Impairment of revalued property, plant and equipment | 7 | - | - | - | - | - | (6,130) | - | - | - | (6,130) | (48) | (6,178) |
| Other comprehensive loss | | - | - | - | - | (359) | - | (30) | - | 29 | (360) | 28 | (332) |
| **Total comprehensive income** | | **-** | **-** | **-** | **-** | **(359)** | **(6,130)** | **12** | **846** | **25,635** | **20,004** | **(949)** | **19,055** |
| Exchange of shares of PJSC Krasnoyarskaya HPP for treasury shares | 8, 15 | - | (15,430) | - | - | - | - | - | - | - | (15,430) | - | (15,430) |
| Effect of changes in non-controlling interest | 15 | - | - | - | - | - | - | - | - | (78) | (78) | 78 | - |
| Dividends | 15 | - | - | - | - | - | - | - | - | (5,130) | (5,130) | (80) | (5,210) |
| Transfer of revaluation reserve to retained earnings | | - | - | - | - | - | (1,409) | - | - | 1,409 | - | - | - |
| Other movements | | - | - | - | - | - | - | - | - | 25 | 25 | 4 | 29 |
| **As at 31 December 2014** | | **386,255** | **(26,092)** | **39,202** | **(135,075)** | **(362)** | **190,476** | **-** | **1,721** | **122,796** | **578,921** | **16,230** | **595,151** |

## Note 1. The Group and its operations

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for OJSC RusHydro (hereinafter referred to as "the Company") and its subsidiaries (hereinafter referred to as the "Group").

The Company was incorporated and is domiciled in the Russian Federation. The Company is a joint stock company limited by shares and was set up in accordance with Russian regulations.

The Group's primary activities are generation and sale of electricity and capacity on the Russian wholesale and retail markets, as well as generation and sale of heat energy.

***Economic environment in the Russian Federation.*** The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The Russian economy is particularly sensitive to changes in oil and gas prices.

The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and 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 Rouble 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 64,0504 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.

In February 2015 Moody's Investors Service also downgraded the Company's rating from Ba1 to Ba2 with negative outlook.

These and other events may have a material impact on the Group's operations, its prospective financial position, operational results and business perspectives. Management is unable to foresee the outcome of such impact at this stage, but believes it takes all the necessary measures to support the sustainability and development of the Group's business.

***Relations with the Government and current regulation.*** As at 31 December 2014 the Russian Federation owned 66.84 percent of the total voting ordinary shares of the Company (31 December 2013: 66.84 percent).

The Group's major customer base includes a large number of entities controlled by, or related to the Government. Furthermore, the Government controls contractors and suppliers, which provide the Group with electricity dispatch, transmission and distribution services, and a number of the Group's fuel and other suppliers (Note 6).

In addition, the Government affects the Group's operations through:

- participation of its representatives in the Company's Board of Directors;
- regulation of tariffs for electricity, capacity and heating;
- approval and monitoring of the Group's investment programme, including volume and sources of financing.

Economic, social and other policies of the Russian Government could have a material effect on operations of the Group.

***Overview of the electricity and capacity market.*** Capacity and electricity, while interrelated, are treated as separate economic products. The capacity market represents the obligation and ability to keep sufficient generation capability in reserve in order to satisfy a target level of potential demand, while the sale of electricity represents the actual delivery of electricity to the purchaser.

The Russian electricity and capacity market consists of wholesale and retail markets.

Participants of the wholesale market include: generating companies, electricity sales companies (including guaranteeing suppliers), electricity export / import operator, Federal Grid Company (in terms of electricity purchases to cover transmission losses), large electricity consumers. Participants of the wholesale market can act as electricity and capacity sellers and buyers.

Participants of the retail markets include: consumers, providers of public utilities, guaranteeing suppliers, electricity sales (supply) companies, electricity generators of retail markets, grid companies, participants of electricity dispatch.

***Wholesale electricity and capacity market.*** The wholesale electricity and capacity market operates in accordance with the Resolution of the Russian Government No. 1172 dated 27 December 2010.

A wholesale market for electricity and capacity functions on the territory of the regions, which are integrated in pricing areas. European Russia and Urals are included in the first pricing area, Siberia is included in the second pricing area. In non-pricing areas (Arkhangelsk and Kaliningrad regions, Komi Republic, regions of the Far East), where the competitive market relationships are not possible due to technological reasons, sales of electricity and capacity are carried out based on regulated tariffs.

In the isolated energy systems which are not technically integrated into the country's unified energy system, there is no electricity and capacity wholesale market and electricity is supplied through the regulated markets.

*Wholesale electricity market*

The wholesale electricity market has a number of sectors varying in contractual terms, conditions and delivery time frames: sector of regulated contracts, day-ahead market, sector of unregulated bilateral contracts and the balancing market.

During 2013 and 2014 the electricity traded in pricing zones of wholesale market was sold at unregulated prices excluding of volumes designated for delivery to population, groups of customers equivalent to population and customers located in North Caucasus and Republic of Tyva.

Electricity and capacity supply tariffs for the Russian Federation are calculated using the price indexing formulas determined by the Federal Tariff Service (hereinafter referred to as “the FTS”).

Electricity and capacity supply volumes are determined based on the estimated consolidated balance of electricity production and supply prepared by the FTS, so that for the electricity and capacity generator supply under regulated contracts does not exceed 35 percent of the total electricity and capacity supply to the wholesale market determined by the decision on balance for such generator.

Electricity volumes that are not covered by the regulated contracts are sold at unregulated prices on the day-ahead market (DAM) and balancing market (BM).

DAM is a competitive selection of seller and buyer price bids on the day ahead of actual electricity supply, including prices and volumes for each of 24 hours. The selection is managed by the Commercial Operator of the wholesale market (OJSC ATS). On DAM, the price is determined by balancing the demand and supply, and such price is applied to all market participants. To mitigate the price manipulation risk, DAM introduced a system encouraging the participants to submit competitive price bids – in accordance with the trading rules, the lowest price bids for electricity supply are satisfied first.

Price indices and trade volumes in DAM are published daily on the web-site of OJSC ATS.

Electricity volumes sold under bilateral contracts and on DAM constitute scheduled electricity consumption. However, actual consumption is inevitably different from the planned one. Deviations from scheduled production / consumption are traded on a real-time basis on BM, and the System Operator of the wholesale market (OJSC SO UES) holds additional tenders to select bids every three hours.

Under unregulated bilateral contracts, the market participants independently determine supply counter parties, prices and volumes.

*Wholesale capacity market*

The Resolution of the Russian Government No. 89 dated 24 February 2010 approved amendments to regulations of the electricity and capacity market providing for organisation of long-term capacity market.

Capacity is traded based on the following trading mechanisms:

- purchase / sale of capacity under capacity sales contracts, concluded as a result of capacity competitive selection of bids;
- purchase / sale of capacity under unregulated contracts, including concluded through the exchange;
- purchase / sale of capacity under contracts to provide capacity and under sale contracts of new nuclear power plants and hydroelectric power plants, similar to capacity sale contracts;
- purchase / sale of capacity produced by forced generators;
- purchase / sale of capacity under regulated contracts (within the volumes for delivery to population and groups of customers equivalent to population);
- purchase / sale of capacity of generating facilities selected by additional screening of investment projects performed when capacity selected through capacity competitive selection of bids in any area does not guarantee meeting the demand for capacity;
- purchase / sale of capacity of generating facilities determined upon the results of competitive selection of investment projects on developing the prospective technological capacity reserves.

During 2013 and 2014, similar to trading operations with electricity, capacity is supplied under regulated contracts only in the volumes required for supply to the population, equivalent consumer categories and consumers operating in some parts of the wholesale market pricing zones, consisting Russian constituent territories as determined by the Russian Government (North Caucasus and Republic of Tyva).

During 2013 and until May 2014 the volumes of capacity of hydropower plants located in the second pricing area (Siberia) were supplied for tariffs approved by the FTS. According to the Resolution of the Russian Government No. 374 dated 28 April 2014 approving changes to the regulations of the wholesale electricity and capacity market since 1 May 2014 35 percent of capacity are supplied for tariffs and 65 percent – at the price of capacity competitive selection of bids. The Resolution also provides phased increase in share of capacity of hydropower plants located in the second pricing area (Siberia) supplied at the price of capacity competitive selection of bids to 80 percent by 1 January 2016, to 100 percent by 1 January 2017.

In the capacity market, capacity tenders are held based on the demand estimated for the respective supply period by OJSC SO UES. If the actual demand for capacity is above the forecast one, additional tender selection may be held for adjusting it.

The tender first selects capacity commissioned under capacity supply contracts (CSC) entered into with heating generation sites and contracts with nuclear power plants and hydropower plants similar to CSC. Non-selected capacity that failed to pass through the tender is not paid for, excluding the capacity of the generating sites that are required to maintain the technological operating modes of the energy system or supply heat (“forced” generators). The capacity of “forced” generators is paid for using the tariff set up by the FTS.

*Non-pricing zone of the Far East*

Territories of the Amur Region, Primorsky Region, Khabarovsk Region, Jewish Autonomous Region and the Southern District of the Sakha Republic (Yakutia) are integrated into a single non-pricing zone of the wholesale electricity and capacity market of the Far East. There are specific features of managing electricity and capacity trading operations due to limitations in the competition among electricity suppliers and grid-imposed limitations for electricity flow.

Tariffs for electricity supplied by the Far East energy companies to the consumer (end-consumer tariffs) are approved by regional regulatory authorities based on the threshold tariff levels approved by the FTS for the regulated period.

The threshold tariff levels for electricity supplied to population or equivalent consumer categories and other consumers in the Russian constituent territories are determined by the FTS in accordance with the forecast of social and economic development in the Russian Federation for the regulated period.

The single buyer wholesale market model is implemented in the Far East non-pricing zone. Suppliers of the wholesale market supply electricity and capacity to the wholesale market using the tariffs established for them by the FTS.

The single buyer purchases electricity and capacity on the wholesale market at indicative prices calculated by OJSC ATS based on the tariffs for suppliers of wholesale market approved by the FTS.

OJSC ATS makes sure settlements between the electricity generators and buyers. Functions of the single buyer are assigned to OJSC DEK on the territory of Amur Region, Jewish Autonomous Region, Khabarovsk Region, Primorsky Region and the Southern District of the Sakha Republic (Yakutia).

However there are regions with only retail market operations – they are isolated energy systems of Kamchatsky Region, Magadan Region, Chukotsk Autonomous Region, Western and Central Regions of Sakha Republic (Yakutia) and Sakhalin Region where systems are not technically integrated into the unified energy system.

***Retail electricity market.*** In the retail electricity markets the sales of electricity purchased on the wholesale electricity and capacity market and electricity of generating companies which are not participants of the wholesale market are carried out.

The retail market rules were approved by Resolution of the Government No. 442 dated 4 May 2013 “On functioning of retail electricity markets, complete and (or) partial constraint of electricity consumption” (hereinafter referred to as “the retail market rules”).

In the territories of the constituent regions of the Russian Federation integrated into pricing zones of the wholesale market electricity is sold at unregulated prices except for electricity sales to population and equivalent consumer categories.

Electricity is supplied to population and groups of customers equivalent to population at regulated prices (tariffs) approved by executive authorities of the constituent regions of the Russian Federation in terms of state tariff regulation.

Regulated prices are established based on forecast of social and economic development of Russian Federation for the next year approved by the Government. The FTS determines the threshold levels for regulated tariffs for electricity supplied to population and equivalent consumer categories.

The guaranteeing suppliers sell electricity at unregulated prices within the threshold limits of unregulated prices determined and applied according to the retail market rules. Electricity sales (supply) companies sell electricity at unregulated prices. Electricity generators in the retail markets sell electricity at unregulated prices except for sales of electricity to guaranteeing supplier.

In the territories of the constituent regions of the Russian Federation integrated into non-pricing zones of the wholesale market for determination of prices for electricity supplied to final customers in the retail markets principles of prices translation of wholesale market are applied. Translation of prices of wholesale market is performed for all final customers except for population and equivalent consumer categories.

Translation prices calculated by electricity sales companies according to the Rules of application of the prices (tariffs) are determined based on regulated tariffs set up for the respective group of customers and cost of purchase of electricity and capacity by guaranteeing supplier (electricity sales company) in the wholesale market. Population and equivalent consumer categories pay for electricity under the tariffs set up by executive authorities of the constituent regions of the Russian Federation.

In the territories of isolated energy systems – sales of electricity to all consumer categories are carried out at regulated prices approved by the FTS and executive authorities of the constituent regions of the Russian Federation in terms of state tariff regulation in the territories where such energy systems are located.

***Heating market.*** Operations of the heating market are regulated by Federal Law No.190-FZ “On Heating” dated 27 July 2010 and Resolution of the Government No. 1075 dated 22 October 2013 “On pricing of heating supply”.

The Group’s entities that are included into the segment RAO Energy System of the East Group are participants on the retail heating markets in the territories of their presence. Heat energy is supplied on the centralised basis from the heat power plants and boiling houses operated by the energy systems. And a number of energy systems are involved in supplies of heat, generating and distributing heat energy, while others – just generate heat energy.

Heating market provides for:

- supply of heat and heat transfer public utilities relating to hot water and heating supply needs;
- supply of heat for the entities’ technological needs.

According to the Russian legislation, sales of heat energy are fully regulated.

Prices (tariffs) for heat supplied by utilities for all consumer groups are approved by executive authorities in the Russian constituent regions responsible for state regulation of prices (tariffs) within the threshold limits of tariffs approved by the FTS.

Service fee for maintenance of spare heat capacity when there is no heat consumption and fee for connection to the system of heating supply are also regulated by executive authorities in the Russian constituent regions responsible for state regulation of prices.

***Market of services for provision of system reliability.*** Types of services for provision of system reliability (hereinafter referred to as "the system services"), rules of their rendering, pricing mechanism and procedure of selection of the constituents of the utilities industry rendering such services and electricity consumers were introduced by Resolution of the Government No. 117 dated 3 March 2010.

Functions of selection of the constituents of the utilities industry rendering system services, conclusion of contracts with such constituents and service charge as well as coordination of actions of participants of the system services market are assigned to OJSC SO UES.

System services market is commissioned to provide functioning of the economic mechanisms stimulating maintenance and development of equipment in United Energy System (UES) of Russia with specific optional features for all constituents:

- ability to participate in standardized primary frequency regulation;
- ability to participate in automated secondary frequency regulation at heat power plants;
- reactive power regulation with use of generation equipment of the power plants which are not participating in generating of active capacity;
- operation of elements of emergency control system in UES of Russia created for the purpose of increase of carrying capacity in controlled sections of electric grid.

From the outlined system services the Group provides services for reactive power regulation with use of generation equipment of the hydroelectric power plants which are not used for electricity generation during the period of rendering the services.

***Renewable-based power generation.*** Russian Government's order No. 449 of 28 May 2014 *On incentive mechanisms for using renewables in the wholesale electricity and capacity market* and Russian Government's Resolution No. 861-r of 28 May 2014 approved the pricing rules for capacity of renewable ("Renewables") power generation assets and mechanisms and key parameters of support for renewable-based power generation in Russia.

The basic mechanism of support is as follows:

- The Russian Government set out annual limits for capacity commissioning for each of three technologies until 2020: wind, distributed power generation (5 to 25 mW) and solar energy.
- The government established the capital expenditure ceilings, localisation requirements, installed capacity utilisation benchmarks (ICUB) and operating expenses.
- ATS performs the annual competitive selection of capacity for the term of 4 years out of the assets of wholesale market zones 1 and 2 based on the minimal capital expenditure criterion.
- The tender winners sign a capacity supply contract (Renewable CSC), which guarantees the minimum capacity payments to investors over 15 years from the commissioning date.
- The contract provides for penalties for violating the terms and conditions set out in Renewable CSC (failure to meet the commissioning deadlines and localisation requirements, and under-supply of capacity).

On 19 September 2014, ATS published the results of the first tender for the construction of renewable energy projects.

The adoption of the above regulatory framework by the Russian Government guarantees economic efficiency of investments in renewable power generation projects.

In 2014 the Group's bids in the tender for the construction of renewable energy projects are selected by ATS.

Following the results of the tender contracts to provide capacity of qualified renewable energy projects are concluded.

## Note 2. Summary of significant accounting policies

***Basis of preparation.*** These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") under the historical cost convention, as modified by the financial instruments initially recognised at fair value, revaluation of property, plant and equipment and available-for-sale financial assets. 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 consolidated financial statements are based on the statutory records with adjustments and reclassifications made for the purpose of fair presentation in accordance with IFRS.

***Functional and presentation currency.*** The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rubles.

***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.

Goodwill is measured by deducting the fair value of the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

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 excludes 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.*** Acquisitions of subsidiaries from parties under common control are accounted for using the predecessor values method. 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. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to merger reserve within equity. 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, i.e. retrospectively except for acquisition of subsidiaries acquired exclusively with a view for resale which are accounted for using predecessor values method prospectively from the acquisition date.

***Investments in associates and joint ventures.*** Investments in associates and joint ventures are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. 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 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 profit or loss in respect of associates and joint ventures, (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 profit or loss in respect of associates and joint ventures.

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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is defined by making of decisions about the relevant activities required the unanimous consent of the parties sharing control.

The Group discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence on joint ventures and associates.

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

***Disposals of subsidiaries, associates or joint ventures.*** When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

***Intangible assets and goodwill.*** The Group's intangible assets other than goodwill have definite useful lives and primarily include customer base acquired in business combination (Note 10), which is amortised over 5 years, and capitalised computer software. Intangible assets are amortised using the straight-line method over their useful lives. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

***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 (Note 31).

*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 repricing 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. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

***Classification of financial assets.*** Financial assets have the following categories: (i) loans and receivables; (ii) available-for-sale financial assets; (iii) financial assets held to maturity and (iv) financial assets at fair value through profit or loss. The description of categories of financial assets of the Group is given below.

*Loans and receivables* are unquoted non-derivative financial assets with fixed or determinable payments.

*Derivative financial instruments.* Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. . Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

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 equity prices.

***Classification of financial liabilities.*** Financial liabilities have the following measurement categories: (i) financial liabilities at fair value through profit or loss and (ii) other financial liabilities. All financial liabilities of the Group including loans are categorised as other and carried at amortized 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.

(in millions of Russian Rubles unless noted otherwise)

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.

***Foreign currency translation.*** 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 the consolidated income statement.

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 except for office buildings and land 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 except for office buildings and land 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 on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases 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 profit or loss for the year. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset.

The revaluation surplus included in equity is transferred directly to retained earnings when the 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.

Social assets are not capitalised if 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.*** Depreciation on items of property, plant and equipment (except for land) is calculated using the straight-line method over their estimated useful lives.

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.

The average useful lives of property, plant and equipment by type of facility, in years, were as follows:

| **Type of facility** | **Average useful lives** |
|---|---|
| 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 of the asset 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.

***Investment property.*** Investment property is property held by the Group to earn rental income which is not occupied by the Group (Note 10). Investment properties are stated at cost. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

***Cash and cash equivalents.*** Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. 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.

***Impairment of financial assets carried at amortised cost.*** Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets 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.

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.

***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.

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

***Non-current assets classified as held for sale. Discontinued operations.*** 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 classified as 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 12 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.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised. Reclassified non-current 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.

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (i) represents a separate major line of business or geographical area of operations; (ii) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (iii) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

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 by 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. Taxes other than on income are recorded within operating expenses. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns.

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 liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. 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 on such temporary differences except to the extent that management expects the temporary differences to reverse 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 different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest 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. 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 plans.* The Group operates defined benefit plans that cover the majority of its employees. Defined benefit plans define 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, minimum tariff rate of remuneration and others.

The net 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 less fair value of plan assets.

The defined benefit obligations are calculated by independent actuary 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.

*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.

*Other post-employment benefit obligations.* The Group pays a one-off financial aid on occasion of an employee's jubilee. The amount of the benefit depends on one or more factors, such as the age, length of service in the company and salary used in the Group companies and others.

For the purpose of calculating benefit obligations of these types, actuarial gains and losses arising as a result of adjustments or changes in actuarial assumptions are recognised within profit or loss in the consolidated statement of income in the period when they arise. All other aspects of accounting for these obligations are similar to those of accounting for defined benefit obligations.

***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 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.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

***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 the delivery of electricity and heat, provisioning for capacity, supply of non-utility services and on the dispatch of goods during the period. Revenue from retail operations is recognised on delivery of electricity and heat to the customer. Revenue amounts are presented exclusive of value added tax.

Revenue transactions under free bilateral contracts are shown net of related purchases of equivalent electricity volumes which the market participant is obliged to make in accordance with the industry regulations. Additional turnover in the amount of RR 10,064 million for the year ended 31 December 2014 (for the year ended 31 December 2013: RR 10,198 million) is shown net for presentation purposes to reflect the economic substance of transactions.

***Government grants.*** Grants from the government are recognised 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 relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets. Government grants are included in cash flows from operating activities.

***Earnings per share.*** The earnings per 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.*** 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 placement value 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. In case the consideration paid is non-cash asset, the treasury shares received are recognised at the fair value of this asset. 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 programmes benefit the community at large without creating constructive obligations to provide such benefits in the future and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

***Financial guarantees.*** Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition, and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

***Segment reporting.*** 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 of the asset 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 impairment of investments in associates.

The effect of these critical accounting estimates and assumptions is disclosed in Notes 7 and 8.

***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 tax payer basis. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plans of the Group companies prepared by management and extrapolated results thereafter.

Management considered the recoverability of recognised deferred tax assets, including those on tax losses carried forward, as probable (Note 16).

***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.

***Discontinued operations.*** In November 2014 management made the announcement of the decision not to sell OJSC DRSK. Based on the above facts, OJSC DRSK was no longer classified as a discontinued operation and as at 31 December 2014 the assets and liabilities of OJSC DRSK were recognised at their recoverable amount at the date of the decision not to sell and a loss in the amount of RR 5,450 million was recognised: RR 4,804 million in profit and loss and RR 646 million (net of tax of RR 144 million) in other comprehensive loss. The recoverable amount of property, plant and equipment of OJSC DRSK at the date of decision not to sell OJSC DRSK comprised RR 23 786 million (Note 7).

***Reclassifications***

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

***Adoption of New or Revised Standards and Interpretations***

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.

## Note 3. New accounting pronouncements

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.

***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.

(in millions of Russian Rubles unless noted otherwise)

## Note 4. Principal subsidiaries

All principal subsidiaries are incorporated and operate in the Russian Federation. Differences between the ownership interest and voting interest held by some subsidiaries represent the effect of preference shares and / or effects of indirect ownership, or non-corporate partnership (LLC).

The Group operates in the three main reportable segments one of which is presented by the Group's parent company – OJSC RusHydro (Note 5). The principal subsidiaries are presented below according to their allocation to the reportable segments as at 31 December 2014 and 31 December 2013.

### *ESC RusHydro subgroup segment*

ESC RusHydro subgroup segment includes the Group's subsidiaries which sell electricity to final customers. All the entities included in this segment with the exception of OJSC ESC RusHydro have the guaranteeing supplier status and are obliged to sign contracts on supplies with all final consumers of their region upon their request.

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | % of ownership | % of voting | % of ownership | % of voting |
| OJSC ESC RusHydro | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Krasnoyarskenergosbyt | 65.81% | 65.81% | 65.81% | 69.40% |
| OJSC Ryazan Power Distributing Company | 90.52% | 90.52% | 90.52% | 90.52% |
| OJSC Chuvashskaya energy retail company | 100.00% | 100.00% | 100.00% | 100.00% |
| LLC ESC Bashkortostan | 100.00% | - | 100.00% | - |

### *RAO Energy System of East subgroup segment*

RAO Energy System of East subgroup segment consists of OJSC RAO Energy System of East and its subsidiaries that generate, distribute and sell electricity and heat in the Far East region of the Russian Federation and render transportation, distribution, construction, repair and other services.

Principal subsidiaries of this segment are presented below:

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | % of ownership | % of voting | % of ownership | % of voting |
| OJSC RAO Energy System of East* | 85.92% | 86.20% | 85.92% | 86.20% |
| OJSC DEK** | 44.92% | 52.17% | 44.92% | 52.17% |
| OJSC DGK** | 44.92% | 100.00% | 44.92% | 100.00% |
| OJSC DRSK** | 44.92% | 100.00% | 44.92% | 100.00% |
| OJSC Kamchatskenergo | 84.83% | 98.74% | 84.83% | 98.74% |
| OJSC Magadanenergo*** | 42.10% | 49.00% | 42.10% | 64.39% |
| OJSC Sakhalinenergo | 47.72% | 55.55% | 47.72% | 55.55% |
| OJSC Yakutskenergo | 72.21% | 79.16% | 72.21% | 79.16% |

** Voting and ownership percent interests in OJSC RAO Energy System of East include 1.80 percent interest held by the Group's subsidiary LLC Vostok-Finance.*

*** Principal subsidiaries included in DEK subgroup.*

**** Control over OJSC Magadanenergo is achieved by the majority of votes on the shareholders meeting because the remaining part of the shares not owned by the Group are distributed among a large number of shareholders the individual stakes of which are insignificant.*

### *Other segments*

Other segments include:

- the Group's subsidiaries with production and sale of electricity and capacity;
- the Group's subsidiaries primarily engaged in research and development related to the utilities industry and construction of hydropower facilities;
- the Group's subsidiaries engaged in repair, upgrade and reconstruction of equipment and hydropower facilities;
- the Group's subsidiaries engaged primarily in hydropower plants construction;
- minor segments which do not have similar economic characteristics.

(in millions of Russian Rubles unless noted otherwise)

Principal subsidiaries included in all other segments are presented below:

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | % of ownership | % of voting | % of ownership | % of voting |
| CJSC Blagoveschensk HPP | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC VNIIG | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Geotherm | 99.65% | 99.65% | 99.65% | 99.65% |
| OJSC Gidroremont-VKK | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Zagorskaya GAES-2 | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Zaramag HS | 99.75% | 99.75% | 98.35% | 98.35% |
| OJSC Institute Hydroproject | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Kolimaenergo | 98.76% | 98.76% | 98.76% | 98.76% |
| OJSC Lenhydroproject | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC NIIES | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Nizhne-Bureiskaya HPP | 100.00% | 100.00% | 100.00% | 100.00% |
| CJSC Sahalin GRES-2 | 100.00% | 100.00% | 100.00% | 100.00% |
| JSC Sulak GidroKaskad | 100.00% | 100.00% | 100.00% | 100.00% |
| CJSC HPP in Sovetskaya Gavan | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Ust'-Srednekangesstroy | 98.76% | 100.00% | 98.76% | 100.00% |
| OJSC Ust'-Srednekanskaya HPP | 99.63% | 100.00% | 99.43% | 100.00% |
| OJSC Chirkeigesstroy | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC ESCO UES | 100.00% | 100.00% | 100.00% | 100.00% |
| CJSC Yakutskaya GRES-2 | 100.00% | 100.00% | 100.00% | 100.00% |

The Group's interest in OJSC Ust'-Srednekanskaya HPP and OJSC Zaramag HS changed following additional share issues of these companies (Note 15).

(in millions of Russian Rubles unless noted otherwise)

***Non-controlling interest***

Summarised financial information related to subsidiaries with significant amount of non-controlling interest before elimination of operations between the Group's subsidiaries are presented below:

| | RAO Energy System of East subgroup | | including DEK subgroup | |
|---|---|---|---|---|
| **Financial position** | **31 December 2014** | **31 December 2013** | **31 December 2014** | **31 December 2013** |
| Percent of non-controlling interest | 14.08% | 14.08% | 55.08% | 55.08% |
| Percent of voting rights, attributable to non-controlling interest | 13.80% | 13.80% | 47.83% | 47.83% |
| Non-current assets | 95,072 | 87,925 | 55,443 | 53,356 |
| Current assets | 55,749 | 49,753 | 23,610 | 25,157 |
| Non-current liabilities | (54,965) | (59,191) | (34,610) | (41,731) |
| Current liabilities | (68,768) | (50,207) | (44,090) | (33,061) |
| **Net assets** | **27,088** | **28,280** | **353** | **3,721** |
| **Carrying value of non-controlling interest** | **14,660** | **15,766** | **2,193** | **4,101** |
| **Financial results** | **Year ended 31 December 2014** | **Year ended 31 December 2013** | **Year ended 31 December 2014** | **Year ended 31 December 2013** |
| Revenue | 150,286 | 139,596 | 100,807 | 91,216 |
| (Loss) / profit | (2,181) | 4,681 | (3,821) | 1,888 |
| Total comprehensive (loss) / income | (1,193) | 4,200 | (3,101) | 1,900 |
| (Loss) / profit, attributable to non-controlling interest | (1,632) | 1,576 | (2,334) | 101 |
| Changes in other comprehensive income, attributable to non-controlling interest | 526 | (38) | 393 | (301) |
| **Cash flows** | | | | |
| Cash generated by operating activities | 12,452 | 15,970 | 2,425 | 6,979 |
| Cash used in investing activities | (13,292) | (11,326) | (6,951) | (6,541) |
| Cash generated / (used) by financing activities | 5,103 | (2,911) | 4,437 | 1,690 |
| **Increase / (decrease) in cash and cash equivalents** | **4,263** | **1,733** | **(89)** | **2,128** |

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 RAO Energy System of East and OJSC DEK.

## 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.

Information concerning the Group is considered by the groups of operations which are consolidated in the following separate reportable segments: OJSC RusHydro (Group's parent company), OJSC ESC RusHydro subgroup, RAO Energy System of East subgroup and other segments (Note 4). Transactions of other segments are not disclosed as reportable segments as the performance is based on quantitative indicators for the periods presented.

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, loss on disposal of property, plant and equipment, loss on remeasurement of net assets of subsidiary asquired exclusively with a view for resale, curtailment in pension payment and pension plan and other non-monetary items of operating expenses. 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.

Intersegment sales are carried out at market prices.

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 | OJSC RusHydro | ESC RusHydro subgroup | RAO Energy System of East subgroup | Other segments | Total segments | Unallocated adjustments and intercompany operations | TOTAL |
|---|---|---|---|---|---|---|---|
| **Revenue** | **98,581** | **82,230** | **150,286** | **29,664** | **360,761** | **(31,201)** | **329,560** |
| *including:* | | | | | | | |
| *from external companies* | *89,177* | *82,211* | *149,935* | *8,227* | *329,550* | *10* | *329,560* |
| *sales of electricity* | *64,016* | *81,307* | *93,888* | *332* | *239,543* | *-* | *239,543* |
| *sales of heat and hot water sales* | *144* | *-* | *33,912* | *3* | *34,059* | *-* | *34,059* |
| *sales of capacity* | *23,467* | *-* | *4,268* | *277* | *28,012* | *-* | *28,012* |
| *other revenue* | *1,550* | *904* | *17,867* | *7,615* | *27,936* | *10* | *27,946* |
| *from intercompany operations* | *9,404* | *19* | *351* | *21,437* | *31,211* | *(31,211)* | *-* |
| Government grants | - | - | 12,413 | 15 | 12,428 | - | 12,428 |
| Operating expenses (excluding depreciation and other non-monetary items) | (41,233) | (81,092) | (147,301) | (27,881) | (297,507) | 28,768 | (268,739) |
| **EBITDA** | **57,348** | **1,138** | **15,398** | **1,798** | **75,682** | **(2,433)** | **73,249** |
| Depreciation of property, plant and equipment and intangible assets | (12,173) | (695) | (7,289) | (1,411) | (21,568) | 228 | (21,340) |
| Other non-monetary items of operating expenses | (9,560) | (560) | (5,372) | (2,386) | (17,878) | (149) | (18,027) |
| *including:* | | | | | | | |
| *impairment of property, plant and equipment* | *(7,138)* | *-* | *(1,746)* | *-* | *(8,884)* | *-* | *(8,884)* |
| *impairment of accounts receivable, net* | *(1,677)* | *(524)* | *(3,635)* | *(767)* | *(6,603)* | *-* | *(6,603)* |
| *impairment of available-for-sale financial assets* | *(669)* | *-* | *(82)* | *(1,030)* | *(1,781)* | *-* | *(1,781)* |
| *(loss) / profit on disposal of property, plant and equipment, net* | *(40)* | *(36)* | *(474)* | *(589)* | *(1,139)* | *(149)* | *(1,288)* |
| *curtailment in pension payment and pension plan* | *-* | *-* | *501* | *-* | *501* | *-* | *501* |
| *(loss) / gain on disposal of subsidiaries and associates* | *(36)* | *-* | *64* | *-* | *28* | *-* | *28* |
| **Operating profit / (loss)** | **35,615** | **(117)** | **2,737** | **(1,999)** | **36,236** | **(2,354)** | **33,882** |
| Finance income | | | | | | | 9,319 |
| Finance costs | | | | | | | (10,668) |
| Loss in respect of associates and joint ventures | | | | | | | (342) |
| **Profit before income tax** | | | | | | | **32,191** |
| Total income tax expense | | | | | | | (8,060) |
| **Profit for the year** | | | | | | | **24,131** |
| | | | | | | | |
| **Capital expenditure** | **42,496** | **146** | **19,486** | **34,441** | **96,569** | **(3,547)** | **93,022** |
| **31 December 2014** | | | | | | | |
| **Non-current and current debt** | **113,060** | **3,403** | **54,496** | **6,071** | **177,030** | **-** | **177,030** |

(in millions of Russian Rubles unless noted otherwise)

| Year ended 31 December 2013 | OJSC RusHydro | ESC RusHydro subgroup | RAO Energy System of East subgroup | Other segments | Total segments | Unallocated adjustments and intercompany operations | TOTAL |
|---|---|---|---|---|---|---|---|
| **Revenue** | **99,138** | **79,168** | **139,596** | **25,977** | **343,879** | **(30,247)** | **313,632** |
| *including:* | | | | | | | |
| *from external companies* | *88,882* | *78,712* | *138,925* | *7,285* | *313,804* | *(172)* | *313,632* |
| *sales of electricity* | *66,132* | *77,951* | *86,550* | *292* | *230,925* | *-* | *230,925* |
| *sales of heat and hot water sales* | *141* | *-* | *33,002* | *4* | *33,147* | *-* | *33,147* |
| *sales of capacity* | *22,317* | *-* | *3,102* | *197* | *25,616* | *-* | *25,616* |
| *other revenue* | *292* | *761* | *16,271* | *6,792* | *24,116* | *(172)* | *23,944* |
| *from intercompany operations* | *10,256* | *456* | *671* | *18,692* | *30,075* | *(30,075)* | *-* |
| Government grants | - | - | 13,233 | 13 | 13,246 | - | 13,246 |
| Gain on disposal of subsidiaries and associates | 224 | - | - | 51 | 275 | 242 | 517 |
| Operating expenses (excluding depreciation and other non-monetary items) | (36,244) | (78,933) | (135,797) | (25,500) | (276,474) | 28,250 | (248,224) |
| **EBITDA** | **63,118** | **235** | **17,032** | **541** | **80,926** | **(1,755)** | **79,171** |
| Depreciation of property, plant and equipment and intangible assets | (11,380) | (670) | (5,174) | (1,238) | (18,462) | 244 | (18,218) |
| Other non-monetary items of operating expenses | (28,826 | (1,170) | (4,830) | (2,469) | (37,295) | (814) | (38,109) |
| *including:* | | | | | | | |
| *(impairment) / reversal of impairment of property, plant and equipment* | *(16,927)* | *59* | *-* | *(2,127)* | *(18,995)* | *-* | *(18,995)* |
| *loss on remeasurement of net assets of subsidiary acquired exclusively with a view for resale* | *-* | *-* | *(4,804)* | *-* | *(4,804)* | *-* | *(4,804)* |
| *impairment of long-term promissory notes* | *(1,633)* | *-* | *-* | *-* | *(1,633)* | *-* | *(1,633)* |
| *impairment of accounts receivable, net* | *(1,592)* | *(1,229)* | *(1,778)* | *(296)* | *(4,895)* | *-* | *(4,895)* |
| *impairment of available-for-sale financial assets* | *(7,944)* | *-* | *-* | *-* | *(7,944)* | *-* | *(7,944)* |
| *(loss) / profit on disposal of property, plant and equipment, net* | *(730)* | *-* | *143* | *(46)* | *(633)* | *(814)* | *(1,447)* |
| *curtailment in pension payment and pension plan* | *-* | *-* | *1,609* | *-* | *1,609* | *-* | *1,609* |
| **Operating profit / (loss)** | **22,912** | **(1,605)** | **7,028** | **(3,166)** | **25,169** | **(2,325)** | **22,844** |
| Finance income | | | | | | | 9,328 |
| Finance costs | | | | | | | (9,542) |
| Profit in respect of associates and joint ventures | | | | | | | 2,555 |
| **Profit before income tax** | | | | | | | **25,185** |
| Total income tax expense | | | | | | | (4,192) |
| **Profit for the year** | | | | | | | **20,993** |
| **Capital expenditure** | **35,632** | **233** | **16,821** | **22,943** | **75,629** | **(5,376)** | **70,253** |
| **31 December 2013** | | | | | | | |
| **Non-current and current debt** | **102,576** | **2,196** | **44,492** | **2,513** | **151,777** | **-** | **151,777** |

(in millions of Russian Rubles unless noted otherwise)

## Note 6. Related party transactions

Parties are generally considered to be related if the parties 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.

The Group's principal related parties for the year ended 31 December 2014 were joint ventures, associates of the Group (Note 8) and government-related entities.

***Joint ventures***

The Group had the following balances with its joint ventures:

| | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| Promissory notes | 10 | 5,203 | 4,741 |
| Loans issued | | 1,492 | 533 |

The Group had the following transactions with its joint ventures:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Sales of electricity and capacity | 146 | 179 |
| Other revenue | 569 | 818 |
| Purchased electricity and capacity | 1,049 | 411 |

***Associates***

The Group had the following balances with its associates:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Trade and other receivables | 293 | 198 |
| Accounts payable | 352 | 26 |

The Group had the following transactions with its associates:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Sales of electricity and capacity | 2,671 | 3,040 |
| Other revenue | 150 | 409 |
| Construction services | 285 | 3,193 |
| Purchased electricity and capacity | 161 | 319 |

***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 the following government-related banks: SC Vnesheconombank, OJSC Sberbank of Russia, OJSC Gazprombank, OJSC VTB Bank, PJSC VTB24, OJSC Bank of Moscow, OJSC Rosselkhozbank (Notes 11, 14, 18). All transactions are carried out on market rates.

The Group's sales of electricity, capacity and heat to government-related entities comprised approximately 30 percent of total sales of electricity, capacity and heat for the year ended 31 December 2014 (for the year ended 31 December 2013: approximately 28 percent). Sales of electricity and capacity under the regulated contracts are conducted directly to the consumers, within the day-ahead market (DAM) – through commission agreements with OJSC Centre of Financial Settlements (hereinafter referred to as "CFS"). Electricity and capacity supply tariffs under the regulated contracts and electricity and heating supply tariffs in non-pricing zone of the Far East are approved by FTS and by regional regulatory authorities of the Russian Federation. On DAM the price is determined by balancing the demand and supply and such price is applied to all market participants. Sales of heat are subject to tariff regulations (Note 1). During the period the Group received government subsidies in amount of RR 12,428 million (in 2013 in the amount of RR 13,246 million) (Note 23).

The Group's purchases of electricity, capacity and fuel from government-related entities comprised approximately 25 percent of total expenses on purchased electricity, capacity and fuel for the year ended 31 December 2014 (for the year ended 31 December 2013: approximately 27 percent).

Electricity distribution services provided to the Group by government-related entities comprised approximately 60 percent of total electricity distribution expenses for the year ended 31 December 2014 (for the year ended 31 December 2013: approximately 62 percent). The distribution of electricity is subject to tariff regulations.

***Key management of the Group.*** Key management of the Group includes members of the Board of Directors of the Company, members of the Management Board of the Company, heads of the business subdivisions of the Company and their deputies, key management of subsidiaries of RAO Energy System of East subgroup segment.

Remuneration to the members of the Board of Directors of the Company for their services in their capacity and for attending Board meetings is paid depending on the results for the year and is calculated based on specific remuneration policy approved by the Annual General Shareholders Meeting of the Company.

Remuneration to the members of the Management Board and to other key management of the Group is paid for their services in full time management positions and is made up of a contractual salary and performance bonuses depending on the results of the work for the period based on key performance indicators approved by the Board of Directors of the Company.

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.

Short-term remuneration paid to the key management of the Group for the year ended 31 December 2014 comprised RR 2,365 million (for the year ended 31 December 2013: RR 1,715 million).

(in millions of Russian Rubles unless noted otherwise)

## Note 7. Property, plant and equipment

| Revalued amount / cost | Buildings | Facilities | Plant and equipment | Assets under construction | Other | Total |
|---|---|---|---|---|---|---|
| **Balance as at 31 December 2013** | **78,712** | **377,429** | **191,377** | **214,999** | **14,620** | **877,137** |
| Impairment of revalued property, plant and equipment | (20) | (6,183) | (1,539) | - | (4) | (7,746) |
| Reclassification | (310) | (2,731) | (1,637) | 4,692 | (14) | - |
| Additions | 202 | 1,646 | 620 | 89,444 | 1,110 | 93,022 |
| Reclassification to non-current assets and assets of disposal group classified as held for sale | (14) | (1) | (50) | (130) | (630) | (825) |
| Transfers | 2,718 | 8,840 | 39,569 | (51,418) | 291 | - |
| Disposals and write-offs | (178) | (298) | (2,203) | (1,466) | (448) | (4,593) |
| **Balance as at 31 December 2014** | **81,110** | **378,702** | **226,137** | **256,121** | **14,925** | **956,995** |
| **Accumulated depreciation (including impairment)** | | | | | | |
| **Balance as at 31 December 2013** | **(27,139)** | **(108,005)** | **(75,665)** | **(26,904)** | **(5,578)** | **(243,291)** |
| Impairment charge | (281) | (639) | (2,617) | (5,405) | (49) | (8,991) |
| Charge for the period | (1,740) | (7,300) | (10,259) | - | (1,636) | (20,935) |
| Reclassification to non-current assets and assets of disposal group classified as held for sale | 13 | 1 | 25 | 92 | 269 | 400 |
| Transfers | (439) | (585) | (2,055) | 3,125 | (46) | - |
| Disposals and write-offs | 82 | 117 | 1,410 | 30 | 373 | 2,012 |
| **Balance as at 31 December 2014** | **(29,504)** | **(116,411)** | **(89,161)** | **(29,062)** | **(6,667)** | **(270,805)** |
| **Net book value as at 31 December 2014** | **51,606** | **262,291** | **136,976** | **227,059** | **8,258** | **686,190** |
| **Net book value as at 31 December 2013** | **51,573** | **269,424** | **115,712** | **188,095** | **9,042** | **633,846** |

| Revalued amount / cost | Buildings | Facilities | Plant and equipment | Assets under construction | Other | Total |
|---|---|---|---|---|---|---|
| **Balance as at 31 December 2012** | **68,697** | **342,120** | **148,798** | **222,895** | **12,625** | **795,135** |
| Impairment of revalued property, plant and equipment | (1,574) | (18,942) | (3,996) | - | (34) | (24,546) |
| Additions | 191 | 544 | 2,008 | 66,665 | 845 | 70,253 |
| Transfer from assets of subsidiary previously acquired with a view for resale | 4,701 | 19,257 | 12,779 | 2,490 | 1,061 | 40,288 |
| Transfers | 7,180 | 34,943 | 33,382 | (76,085) | 580 | - |
| Disposals and write-offs | (483) | (493) | (1,594) | (966) | (457) | (3,993) |
| **Balance as at 31 December 2013** | **78,712** | **377,429** | **191,377** | **214,999** | **14,620** | **877,137** |
| **Accumulated depreciation (including impairment)** | | | | | | |
| **Balance as at 31 December 2012** | **(20,946)** | **(68,659)** | **(52,488)** | **(44,876)** | **(3,705)** | **(190,674)** |
| Impairment charge | (2,543) | (2,257) | (6,732) | (11,829) | (248) | (23,609) |
| Reversal of impairment | 393 | 3,194 | 628 | 378 | 21 | 4,614 |
| Charge for the period | (1,541) | (6,426) | (9,457) | - | (1,419) | (18,843) |
| Transfer from assets of subsidiary previously acquired with a view for resale | (1,570) | (8,421) | (5,549) | (515) | (447) | (16,502) |
| Transfers | (1,020) | (25,581) | (3,053) | 29,685 | (31) | - |
| Disposals and write-offs | 88 | 145 | 986 | 253 | 251 | 1,723 |
| **Balance as at 31 December 2013** | **(27,139)** | **(108,005)** | **(75,665)** | **(26,904)** | **(5,578)** | **(243,291)** |
| **Net book value as at 31 December 2013** | **51,573** | **269,424** | **115,712** | **188,095** | **9,042** | **633,846** |
| **Net book value as at 31 December 2012** | **47,751** | **273,461** | **96,310** | **178,019** | **8,920** | **604,461** |

As at 31 December 2014 included in the net book value of the property, plant and equipment are office buildings and plots of land owned by the Group in the amount of RR 7,869 million (31 December 2013: RR 8,014 million) which are stated at cost.

Assets under construction represent the expenditures for property, plant and equipment that are being constructed, including hydropower plants under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2014 such advances amounted to RR 51,785 million (31 December 2013: RR 49,577 million).

Additions to assets under construction included capitalised borrowing costs in the amount of RR 9,347 million, the capitalisation rate was 8.77 percent (for the year ended 31 December 2013: RR 6,502 million, the capitalisation rate was 8.09 percent).

Additions to assets under construction included capitalised depreciation in the amount of RR 149 million (for the year ended 31 December 2013: RR 1,056 million).

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

Management of the Group considers that the carrying amount of property, plant and equipment as at 31 December 2014 and 31 December 2013 does not differ materially from their fair value at the end of the reporting period.

***Process of fair value of property, plant and equipment assessement***

Management of the Group determines the fair value of property, plant and equipment according to the following procedures.

The Group's property, plant and equipment are mainly represented by specialised property: the Group's key assets are represented by unique hydro engineering structures and power 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 no more for an asset 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, etc.

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 are used to determine the expected cash flows, capital expenditures and discount rates for each cash generating unit. 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 Group subsidiaries and Company's branches are 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 and if the recoverable amount is less than the carrying amount of cash generating unit, the economic impairment is determined as the difference between the recoverable amount and the carrying amount.

(in millions of Russian Rubles unless noted otherwise)

### *Impairment of property, plant and equipment as at 31 December 2014 and 31 December 2013*

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 the cash flow testing** | **Year ended 31 December 2014** | **Year ended 31 December 2013** |
|---|---|---|
| Information used | Actual operating results for 2014 and business plans for 2015–2020 | Actual operating results for 2013 and business plans for 2014–2017 |
| Forecast period* | For existing plants 10 years (2015–2024)<br>For plants under construction - 20 years after commissioning and before the completion of capacity sale contracts (2015–2038)<br>For cash-generating units of the Far East - 11-25 years (2015–2040) | For existing plants 10 years (2014–2023)<br>For plants under construction - 20 years after commissioning and before the completion of capacity sale contracts (2014–2037)<br>For cash-generating units of the Far East - 11-25 years (2014–2039) |
| Forecasted growth rates in terminal period | 4.0 – 4.1 percent, depending on the length of the forecast period | 3.0 – 3.9 percent, depending on the length of the forecast period |
| Discount rate before tax (based on weighted average cost of capital) | 14.4 – 17.8 percent (RR) | 12.4 – 14.0 percent (RR) |
| Forecast of electricity and capacity tariffs in the isolated energy systems and in non-pricing zone of the Far East | Based on methodology of tariffs calculation adopted by regulatory authority | |
| Forecast of electricity and capacity prices in competitive market | Based on the forecast of OJSC ATS and forecast rates on energy prices growth prepared by the Ministry of Economic Development of RF | |
| Forecast of capacity prices related to competitive capacity selection | For 2015 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used<br>For 2016–2024 – adjusted on consumer index price and forecasts of CJSC Energy Forecasting Agency | For 2014 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used<br>For 2015–2023 – adjusted on consumer index price |
| Forecast of electricity and capacity volumes | Based on the Company's management assessment of future trends in the business | |
| Forecast of capital expenditures | Based on the management valuation of capital expenditures on modernisation and reconstruction programme | |

** Management considers that a forecast period greater than five years is appropriate as the wholesale electricity and capacity market is expected to change significantly over the forecast period and cash flow projections will not be stabilised within five years. However a forecast period of cash flows was defined by remaining useful life of assets tested. For hydroelectric power plants this period exceeds 100 years due to the fact that key asset is a dam. In this regard the recoverable amount of assets was defined based on cash flows during the forecast period and terminal values.*

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

Loss was recognized mainly in respect of receipt of fixed assets as a cash-generating unit means impaired in prior periods. As a result, impairment loss in the amount of RR 8,991 million was recognised in Consolidated Income Statement and decrease of previous revaluation reserve in the amount of RR 7,746 million (before income tax of RR 1,549 million) – in other comprehensive loss.

The net book value of property, plant and equipment of the Group decreased for the total amount of RR 16,737 million, the effects relate mainly to the following cash-generating units:

- Saratovskaya HPP – impairment loss in the amount of RR 3,642 million and decrease of previous revaluation reserve in the amount of RR 7,612 million;
- Cascade of Kubanskiye HPPs – impairment loss in the amount of RR 1,871 million and decrease of previous revaluation reserve in the amount of RR nil million;
- Zeiskaya HPP – impairment loss in the amount of RR 755 million and decrease of previous revaluation reserve in the amount of RR 1 million;
- Zagorskaya GAES – impairment loss in the amount of RR 609 million and decrease of previous revaluation reserve in the amount of RR nil million.

(in millions of Russian Rubles unless noted otherwise)

The sensitivity analysis of the recoverable amounts of cash-generating units for the key assumptions is presened in Note 31.

For the year ended 31 December 2014 revaluation of reserve for ash dump obligations (Note 28) due to discount rate increase resulted in impairment loss reduction in the amount of RR 107 million and other comprehensive income in the amount of RR 22 million.

As at 31 December 2013 net book value of property, plant and equipment decreased for the total amount of RR 43,541 million. As a result, impairment loss in the amount of RR 18,995 million was recognised in Consolidated Income Statement and decrease of previous revaluation reserve in the amount of RR 24,546 million (before income tax of RR 4,909 million) – in other comprehensive loss.

The carrying amount of each class of of property, plant and equipment that would have been recognised had the assets been carried under the cost model is as follows:

| | Production buildings | Facilities | Plant and equipment | Assets under construction | Other | Total |
|---|---|---|---|---|---|---|
| Net book value as at 31 December 2014 | 28,409 | 103,047 | 124,524 | 231,039 | 1,914 | 488,933 |
| Net book value as at 31 December 2013 | 27,834 | 107,607 | 101,344 | 192,075 | 4,235 | 433,095 |

***Events on Zagorskaya GAES-2.*** On 17 September 2013 there was a partial flooding at Zagorskaya GAES-2 which is under construction in the Moscow Region. The flooding of the GAES building originated from the lower reservoir via functional joints of the station block and a newly formed cavity in the right junction of the GAES-2 building foundation (hereinafter "the technical incident").

Currently management of the Group cannot reliably estimate expenses that may be necessary to eliminate consequences of the technical incident and write-off damaged assets under construction items. However, these expenses may be material for the Group. Construction and assembly works as well as property, including equipment, are insured and management of the Group continue working with the insurance companies.

As of today OJSC AlfaStrakhovanie and OJSC SOGAZ have recognized the technical incident at Zagorskaya GAES-2 as an insured event. The maximum insurance amount under the contract with OJSC SOGAZ is RR 2.6 billion and under the contract with OJSC AlfaStrakhovanie it is RR 1.2 billion. Negotiations are under way with OIJSC Ingosstrakh who together with OJSC AlfaStrakhovanie is the insurer of risks associated with the construction and assembly work but has not yet finalized the insured event recognition process.

Works at the station block of Zagorskaya GAES-2 are being carried on along with the negotiations on the insurance indemnity. In 2014 the station unit was stabilized, a stock-take of equipment was performed as well as the inspection for damage. The Group specialists in cooperation with the engaged independent expert, the German engineering company Lahmeyer International, have come to the conclusion that in the circumstances the method of compensation grouting would be the optimal recovery technique. Under this method the GAES building is to be levelled by increasing the bank yard under it.

As at 31 December 2014 total construction costs for Zagorskaya GAES-2 amounted to RR 62,121 million.

Management of the Group believes that there are no indications of property, plant and equipment impairment as at 31 December 2014 there were capacity supply contracts concluded in respect of new power generation facilities of Zagorskaya GAES-2, that guarantee the payback period of 20 years for all capital expenses invested in construction in the period.

***Leased equipment.*** As at 31 December 2014 the net book value of assets held under finance lease and included in property, plant and equipment was RR 4,639 million (31 December 2013: RR 4,564 million). Assets held under finance lease were mainly represented by plant and equipment.

***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 land areas leased by the Group are the territories on which the Group’s hydropower plants 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 operating 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.

(in millions of Russian Rubles unless noted otherwise)

The future payments under non-cancellable operating leases in accordance with rates as at the reporting period end are as follows:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Less than one year | 2,174 | 2,290 |
| Between one and five years | 4,169 | 3,635 |
| After five years | 40,028 | 35,332 |
| **Total** | **46,371** | **41,257** |

***Pledged assets.*** As at 31 December 2014 RR 3 million of property, plant and equipment have been pledged as collateral for borrowings (31 December 2013: RR nil million).

## Note 8. Investments in associates and joint ventures

The Group's interests in associates and joint ventures and its carrying value were as follows:

| | Place of business | % held 31 December 2014 | % held 31 December 2013 | Carrying value 31 December 2014 | Carrying value 31 December 2013 |
|---|---|---|---|---|---|
| **Associates** | | | | | |
| OJSC Irkutsk Electronetwork Company (OJSC IENC) | Russia | 42.75% | 42.75% | 8,060 | 8,420 |
| OJSC Sakhalin Energy Company (OJSC SEC) | Russia | 36.09% | 40.47% | 3,441 | 3,341 |
| PJSC Krasnoyarskaya HPP | Russia | - | 25.12% | - | 15,209 |
| Other | | | | 343 | 267 |
| **Total associates** | | | | **11,844** | **27,237** |
| **Joint ventures** | | | | | |
| BoGES Group | Russia | 50.00% | 50.00% | 1,048 | 1,960 |
| BALP Group | Russia | 50.00% | 50.00% | - | - |
| Other | | | | 1,140 | 1,104 |
| **Total joint ventures** | | | | **2,188** | **3,064** |
| **Total investments in associates and joint ventures** | | | | **14,032** | **30,301** |

The amounts in respect of associates and joint ventures recognised in the Income Statement are as follows:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Associates** | | |
| PJSC Krasnoyarskaya HPP | 293 | 6,589 |
| OJSC IENC | (360) | (97) |
| OJSC SEC | 101 | 266 |
| Other | 76 | 55 |
| **Total associates** | **110** | **6,813** |
| **Joint ventures** | | |
| BoGES Group | (467) | (4,216) |
| BALP Group | - | - |
| Other | 15 | (42) |
| **Total joint ventures** | **(452)** | **(4,258)** |
| **(Loss) / profit in respect of associates and joint ventures** | **(342)** | **2,555** |

### *Associates*

*OJSC Irkutsk Electronetwork Company (OJSC IENC)*

OJSC IENC maintains 0.4–500 kW electric grids of the Irkutsk region with the total length of over 40,000 km and more than 8,900 transforming substations with total capacity of over 26,000 MVA. The core activities of OJSC IENC are provision of services of electricity transmission via electric grids in the interests of large consumers and utilities companies, i.e. entities operating in the wholesale electricity and capacity market. OJSC IENC is controlled by EN+ Group.

The Group's investments in OJSC IENC represent its strategic assets and allow the Group to use them in the acquisition and asset exchange transactions; in addition, they represent a source of dividends.

(in millions of Russian Rubles unless noted otherwise)

*OJSC Sakhalin Energy Company (OJSC SEC)*

OJSC SEC is the customer-developer of a number of electricity sector assets in the Sakhalin region as part of the federal special purpose program Economic and Social Development of the Far East and Transbaikal until 2014 and the oblast's special purpose program Power Sector Development in the Sakhalin Region until 2010 and for the Long-term Period until 2020. OJSC SEC's major investment project was the Construction of Power Generating Unit No. 4 at Yuzhno-Sakhalinsk Thermal Power Plant-1, which is operated by OJSC Sakhalinenergo, the Group's subsidiary, under a lease agreement. Other OJSC SEC's shareholders, in addition to the Group, are the Russian Government and the government of the Sakhalin region represented by the Ministry of Land and Property Affairs of Sakhalin region

The Group's investments in OJSC SEC represent strategic assets which allow a more efficient joint operation of the assets of Sakhalinenergo and OJSC SEC.

The Group's share in OJSC SEC changed as a result of the additional share issues of OJSC SEC. As at 31 December 2014 the Group's share in OJSC SEC comprised 36.09 percent.

*PJSC Krasnoyarskaya HPP*

In July 2014 25 percent minus 1 share of PJSC Krasnoyarskaya HPP were transfered by the Group's subsidiary OJSC HydroInvest to OJSC EuroSibEnergo in exchange of 3.39 percent of treasury shares (Note 15). Remaining 0.12 percent of shares of PJSC Krasnoyarskaya HPP were reclassified to available-for-sale financial assets.

Summarised financial information for significant associates for the years ended 31 December 2014 and 31 December 2013 and as at 31 December 2014 and 31 December 2013:

| | PJSC Krasnoyarskaya HPP | | OJSC IENC | | OJSC SEC | |
|---|---|---|---|---|---|---|
| **As at 31 December** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Non-current asssets | - | 50,576 | 25,848 | 25,489 | 10,519 | 9,361 |
| Current assets | - | 12,270 | 2,478 | 2,129 | 1,516 | 2,537 |
| Non-current liabilities | - | (6,787) | (5,334) | (5,638) | - | - |
| Current liabilities | - | (860) | (6,353) | (4,498) | (1,063) | (1,207) |
| **Net assets** | **-** | **55,199** | **16,639** | **17,482** | **10,972** | **10,691** |
| **For the year ended 31 December** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Revenue | 7,673 | 15,569 | 15,674 | 11,210 | 285 | 1 |
| Reversal of impairment of property, plant and equipment | - | 20,778 | - | - | - | - |
| **Profit / (loss) for the year** | **1,166** | **19,357** | **(843)** | **(227)** | **(69)** | **437** |
| **Total comprehensive income / (loss) for the year** | **1,166** | **19,357** | **(843)** | **(227)** | **(69)** | **437** |

(in millions of Russian Rubles unless noted otherwise)

Reconciliation of the summarised financial information presented to the carrying value of interest in associates:

| | PJSC Krasnoyarskaya HPP | OJSC IENC | OJSC SEC | Others | Total |
|---|---|---|---|---|---|
| **Net assets as at 31 December 2012** | **35,842** | **-** | **7,388** | **637** | **43,867** |
| Net assets at the date of the purchase | - | 17,777 | - | 200 | 17,977 |
| Profit / (loss) for the year | 19,357 | (227) | 437 | (23) | 19,544 |
| Additional share issue | - | - | 2,866 | - | 2,866 |
| Dividends | - | (68) | - | - | (68) |
| **Net assets as at 31 December 2013** | **55,199** | **17,482** | **10,691** | **814** | **84,186** |
| Interest in associates | 13,866 | 7,474 | 4,327 | 266 | 25,933 |
| Goodwill | 8,619 | 946 | - | - | 9,565 |
| Accumulated impairment of investments in associates | (7,276) | - | - | - | (7,276) |
| Effect of recognition of fair value of interest received as a result of additional share issues | - | - | (986) | - | (986) |
| Accumulated losses | - | - | - | 1 | 1 |
| **Carrying value as at 31 December 2013** | **15,209** | **8,420** | **3,341** | **267** | **27,237** |
| | | | | | |
| **Net assets as at 31 December 2013** | **55,199** | **17,482** | **10,691** | **814** | **84,186** |
| Profit / (loss) for the year | 1,166 | (843) | (69) | 212 | 466 |
| Additional share issue | - | - | 350 | - | 350 |
| Disposal | (56,103) | - | - | - | (56,103) |
| Reclassification to available-for-sale financial assets | (262) | - | - | - | (262) |
| **Net assets as at 31 December 2014** | **-** | **16,639** | **10,972** | **1,026** | **28,637** |
| Interest in associates | - | 7,114 | 3,960 | 335 | 11,409 |
| Goodwill | - | 946 | - | - | 946 |
| Additional share issues | - | - | (519) | - | (519) |
| Accumulated losses | - | - | - | 8 | 8 |
| **Carrying value as at 31 December 2014** | **-** | **8,060** | **3,441** | **343** | **11,844** |

### *Joint ventures*

*BoGES Group and BALP Group*

Starting from 2006 the Company and RUSAL Group have been jointly implementing the BEMA project based on an agreement for mutual financing, completion and subsequent operation of Boguchanskaya HPP, with an installed capacity of 2,997 MW, and Boguchansky aluminium plant, with a capacity of 600,000 tonnes of aluminium per annum. Within the BEMA project on parity basis joint ventures BoGES Ltd (Cyprus) and BALP Ltd (Cyprus) were formed, which have controlling interests in OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant.

BoGES Ltd and OJSC Boguchanskaya GES together form BoGES Group. BALP Ltd and CJSC Boguchansky Aluminium Plant together form BALP Group.

BoGES Ltd and BALP Ltd provide corporate governance of Boguchanskaya HPP and Boguchansky Aluminium Plant in line with the parity of interests of the investors and are not engaged in other operations.

Starting from November 2012, Boguchanskaya HPP sells electricity and capacity to large consumers and utilities companies, having commissioned hydroelectric generating units of Boguchanskaya HPP and having the status of an entity operating in the wholesale electricity and capacity market.

The construction of Boguchansky Aluminium Plant is ongoing. Boguchansky Aluminium Plant will become a key consumer of energy generated by Boguchanskaya HPP. The plant's production complex will include electrolytic, casting and anode production facilities.

(in millions of Russian Rubles unless noted otherwise)

Summarised financial information for significant joint ventures for the years ended 31 December 2014 and 31 December 2013 and as at 31 December 2014 and 31 December 2013:

| | BoGES Group | | BALP Group | |
|---|---|---|---|---|
| **As at 31 December** | **2014** | **2013** | **2014** | **2013** |
| Non-current asssets | 44,551 | 44,673 | 17,290 | 9,999 |
| Current assets including: | 3,103 | 2,054 | 756 | 1,023 |
| *Cash and cash equivalents* | 765 | 248 | 130 | 194 |
| Non-current liabilities including: | (43,629) | (41,128) | (5,952) | (32,202) |
| *Non-current financial liabilities (excluding trade payables)* | (37,347) | (34,634) | (3,337) | (30,220) |
| Current liabilities including: | (1,973) | (1,627) | (61,729) | (1,527) |
| *Current financial liabilities (excluding trade payables)* | (731) | (22) | (60,157) | (63) |
| **Net assets** | **2,052** | **3,972** | **(49,635)** | **(22,707)** |
| **For the year ended 31 December** | **2014** | **2013** | **2014** | **2013** |
| Revenue | 6,571 | 4,249 | 275 | 252 |
| Depreciation of property, plant and equipment | (1,066) | (405) | (55) | (59) |
| Interest income | 53 | 20 | 15 | 1 |
| Interest expense | (2,730) | (2,401) | (3,407) | (1,963) |
| Impairment of property, plant and equipment | - | (7,296) | (5,521) | (9,724) |
| Loss before income tax | (2,146) | (11,663) | (33,584) | (13,571) |
| Income tax benefit | 226 | 1,795 | 6,656 | 2,705 |
| **Loss for the year** | **(1,920)** | **(9,868)** | **(26,928)** | **(10,866)** |
| Other comprehensive loss for the year | - | (127) | - | - |
| **Total comprehensive loss for the year** | **(1,920)** | **(9,995)** | **(26,928)** | **(10,866)** |

Reconciliation of the summarised financial information presented to the carrying value of interest in joint ventures:

| | BoGES Group | BALP Group | Others | Total |
|---|---|---|---|---|
| **Net assets as at 31 December 2012** | **13,967** | **(11,841)** | **1,190** | **3,316** |
| Net assets at the date of the purchase | - | - | 1,156 | 1,156 |
| Loss for the year | (9,995) | (10,866) | (105) | (20,966) |
| **Net assets as at 31 December 2013** | **3,972** | **(22,707)** | **2,241** | **(16,494)** |
| Interest in joint ventures | 1,986 | (11,354) | 1,100 | (8,268) |
| Non-controlling interest | (26) | - | - | (26) |
| Accumulated losses | - | 11,354 | 4 | 11,358 |
| **Carrying value as at 31 December 2013** | **1,960** | **-** | **1,104** | **3,064** |
| **Net assets as at 31 December 2013** | **3,972** | **(22,707)** | **2,241** | **(16,494)** |
| Increase of share capital | - | - | 23 | 23 |
| Loss for the year | (1,920) | (26,928) | (159) | (29,007) |
| **Net assets as at 31 December 2014** | **2,052** | **(49,635)** | **2,105** | **(45,478)** |
| Interest in joint ventures | 1,026 | (24,818) | 1,036 | (22,756) |
| Non-controlling interest | 22 | - | - | 22 |
| Accumulated losses | - | 24,818 | 104 | 24,922 |
| **Carrying value as at 31 December 2014** | **1,048** | **-** | **1,140** | **2,188** |

The Group has issued guarantees for CJSC Boguchansky Aluminium Plant in favour of its suppliers for future equipment deliveries and for OJSC Boguchanskaya HPP for the loan facility in favour of the State Corporation Vnesheconombank (Note 28).

In accordance with investment programme of the Company the Group has to invest RR 3,449 million for the period 2015–2017 in construction Boguchanskaya HPP (RR 142 million for the period 2014–2016), as well as RR 13,373 million for the period 2015–2017 in construction Boguchansky Aluminium Plant (RR 25,257 million for the period 2014–2016).

(in millions of Russian Rubles unless noted otherwise)

## Note 9. Available-for-sale financial assets

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | % of ownership | Fair value | % of ownership | Fair value |
| OJSC Inter RAO | 4,92% | 3,654 | 4.92% | 5,132 |
| OJSC Russian Grids | 0,28% | 212 | 0.28% | 356 |
| OJSC FGC UES | 0,13% | 76 | 0.13% | 150 |
| Other | - | 190 | - | 156 |
| **Total available-for-sale financial assets** | | **4,132** | | **5,794** |

The fair values of available-for-sale financial assets were calculated based on quoted market prices, for those which are not publicly traded fair values were estimated by reference to the discounted cash flows of the investees (Note 31).

For the year ended 31 December 2014 an impairment of available-for-sale financial assets in respect of shares of OJSC Inter RAO was recognised in profit or loss in the amount of RR 1,478 million (for the year ended 31 December 2013: RR 7,594 million).

Loss arising on other available-for-sale financial assets for the year ended 31 December 2014 totaled RR 261 million was recorded within other comprehensive income in amount of RR 42 million, net of tax, (for the year ended 31 December 2013: RR 586 million, net of tax) and in profit or loss in amount of RR 303 million (for the year ended 31 December 2013: RR 350 million).

## Note 10. Other non-current assets

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Long-term promissory notes | 37,047 | 36,690 |
| Discount | (16,864) | (17,021) |
| Impairment provision | (14,025) | (14,025) |
| Long-term promissory notes, net | 6,158 | 5,644 |
| Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs | 5,478 | 5,573 |
| VAT recoverable | 3,226 | 5,381 |
| Customer base of LLC ESC Bashkortostan | 1,109 | 1,662 |
| Goodwill | 929 | 929 |
| Other non-current assets | 8,121 | 5,787 |
| **Total other non-current assets** | **25,021** | **24,976** |

| | Rating* | Rating agency | Effective interest rate | Maturity date | 31 December 2014 | 31 December 2013 |
|---|---|---|---|---|---|---|
| **Long-term promissory notes** | | | | | | |
| OJSC Boguchanskaya HPP | - | - | 9.75% | 2029 | 5,203 | 4,741 |
| OJSC Alfa Bank | Ba1 | Moody's | 10.40–14.00% | 2015–2021 | 466 | 668 |
| PJSC ROSBANK | Baa3 | Moody's | 10.90-14.00% | 2020–2021 | 446 | 142 |
| Other | | | | | 43 | 93 |
| **Total long-term promissory notes** | | | | | **6,158** | **5,644** |

** Banks' ratings are presented as at 31 December 2014. The ratings of several banks decreased after the year end.*

***Promissory notes of OJSC Boguchanskaya HPP.*** As at 31 December 2014 the amortised cost of interest-free long-term promissory notes of OJSC Boguchanskaya HPP (payable not earlier than 31 December 2029 with total nominal value of RR 21,027 million) pledged as collateral to the State Corporation Vnesheconombank amounted to RR 5,203 million (31 December 2013: RR 4,741 million) (Note 8).

***Promissory notes of CJSC Boguchansky Aluminium Plant.*** As a result of the performed analysis as at 31 December 2013, management of the Group concluded that promissory notes of CJSC Boguchansky Aluminium Plant are highly probable not recoverable and recognised an impairment loss of RR 1,633 million (including unwinding of discount for the period). As at 31 December 2014 there were no indicators for reversal of impairment of these promissory notes.

***Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs.*** As at 31 December 2014 the carrying value of dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs owned by the Group received in 2011 in the course of additional share issue of the Company was RR 5,478 million. The recoverable amount of these dams is estimated by management based on future cash flows. Key assumption as at 31 December 2014 used for the cash flows analysis is estimation of the annual consideration, received from OJSC Irkutskenergo and respective to market value of right of temporary ownership and use this property.

(in millions of Russian Rubles unless noted otherwise)

***Goodwill and customer base.*** Presented below is the carrying value of goodwill:

| | **Year ended 31 December 2014** | **Year ended 31 December 2013** |
|---|---|---|
| Gross book value as of 1 January | 3,013 | 3,013 |
| Accumulated impairment losses as of 1 January | (2,084) | (2,084) |
| **Carrying amount as of 1 January** | **929** | **929** |
| Impairment loss | - | - |
| **Carrying amount as of 31 December** | **929** | **929** |
| Gross book value as of 31 December | 3,013 | 3,013 |
| Accumulated impairment losses as of 31 December | (2,084) | (2,084) |

*Goodwill of OJSC Institute Hydroproject.* Goodwill of RR 929 million was recognised at the date of the acquisition of OJSC Institute Hydroproject in October 2010 as the Group was able to receive economic benefits from the expected synergy from the high qualification of engineering specialists and long-term relationships between OJSC Institute Hydroproject and customers, including the Group entities.

As at 31 December 2014 and 31 December 2013, the Group tested goodwill related to OJSC Institute Hydroproject for its potential impairment. For the testing purposes, OJSC Institute Hydroproject was considered as a single cash generating asset.

Presented below are key assumptions used for the impairment testing purposes for the years ended 31 December 2014 and 31 December 2013:

| **Key assumptions used for the impairment testing purposes** | **For the year ended 31 December 2014** | **For the year ended 31 December 2013** |
|---|---|---|
| Information used | Actual performance for 2014 and results of business plans for 2015-2019 | Actual performance for 2013 and results of business plans for 2014-2018 |
| Forecast period | 5 years | 5 years |
| Growth interest rate after the forecast period | 4.3 percent | 3.6 percent |
| Discount rate | 16.1 percent | 13.9 percent |
| Net cash inflow after the forecast period | Minimum expectation: RR 167 million in 2015, RR 175 million in 2016, RR 182 million in 2017, RR 193 million in 2018, RR 201 million in 2019 | Minimum expectation: RR 216 million in 2014, RR 179million in 2015, RR 200 million in 2016, RR 234 million in 2017, RR 243 million in 2018 |
| Net cash inflow after the forecast period | Minimum expectation: RR 178 million per year | Minimum expectation: RR 250 million per year |

Based on the above assumptions, as at 31 December 2014 and 31 December 2013 the recoverable amount of OJSC Institute Hydroproject as a cash generating asset exceeded the carrying amount – there is no economic impairment.

*Customer base of LLC ESC Baskortostan.* As at 31 December 2014 and 31 December 2013 the Group tested customer base of LLC ESC Baskortostan for potential impairment. For the testing purposes LLC ESC Baskortostan was considered as a single cash generating unit.

(in millions of Russian Rubles unless noted otherwise)

Presented below are key assumptions used for the impairment testing purposes:

| Key assumptions used for the impairment testing purposes | For the year ended 31 December 2014 | For the year ended 31 December 2013 |
|---|---|---|
| Information used | Actual performance for 2014 and results of business plans for 2015-2019 | Actual performance for 2013 and results of business plans for 2014-2018 |
| Forecast period* | 10 years (2015-2024) | 10 years (2014-2023) |
| Growth interest rate after the forecast period | 4.0 percent | 2.3 percent |
| Discount rate | 15.2 percent | 14.2 percent |
| Forecast electricity sales | Based on management forecast | |
| Forecast electricity tariffs | 2015 – based on tariffs set by regulators<br>2016-2024 – based on the consumer price index | 2014 – based on tariffs set by regulators<br>2015-2023 – based on the consumer price index |

** The management believes that the forecast period exceeding five years is more reliable as the electricity and capacity market is expected to undergo significant changes during the forecast period, and cash flows will not flatten out within five years.*

As at 31 December 2014 and 31 December 2013 the recoverable amount of LLC ESC Baskortostan exceeded the carrying amount – no loss on impairment related to the customer base of LLC ESC Baskortostan was recognised.

## Note 11. Cash and cash equivalents

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Cash at bank | 14,960 | 10,744 |
| Cash equivalents (contractual interest rate: 9.25-29.40%) | 19,417 | 23,712 |
| Cash in hand | 17 | 16 |
| **Total cash and cash equivalents** | **34,394** | **34,472** |

Cash equivalents held as at 31 December 2014 and 31 December 2013 comprised short-term bank deposits with original maturities of three months or less.

Cash and cash equivalents balances denominated in US Dollars as at 31 December 2014 were RR 767 million (31 December 2013: RR 252 million). Cash and cash equivalents balances denominated in Euros as at 31 December 2014 were RR 2,310 million (31 December 2013: RR 682 million).

(in millions of Russian Rubles unless noted otherwise)

Cash and cash equivalents are deposited in several institutions as follows:

| | Rating* | Rating agency | 31 December 2014 | 31 December 2013 |
|---|---|---|---|---|
| **Cash at banks** | | | | |
| JSC Gazprombank | Ba1 | Moody's | 5,996 | 2,115 |
| OJSC Sberbank of Russia | Baa2 | Moody's | 5,354 | 4,827 |
| CJSC Peresvet Bank | B+ | Standard & Poor’s | 1,228 | 2,739 |
| UBS AG | A | Fitch Ratings | 526 | 17 |
| LLC Creditinvestbank | - | - | 262 | - |
| PJSC VTB24 | Baa3 | Moody's | 200 | 106 |
| JSC Bank Severny Morskoy Put | - | - | 187 | - |
| OJSC Kamchatkomargoprombank | - | - | 170 | 30 |
| JSC InvestCapitalBank | - | - | 159 | - |
| PJSC ROSBANK | Baa3 | Moody's | 158 | 299 |
| OJSC VTB Bank | BBB- | Standard & Poor’s | 83 | 258 |
| Other | | | 637 | 353 |
| **Total cash at banks** | | | **14,960** | **10,744** |
| **Bank deposits** | | | | |
| CJSC Peresvet Bank | B+ | Standard & Poor’s | 7,319 | 3,477 |
| OJSC Sberbank of Russia | Baa2 | Moody's | 5,613 | 7,151 |
| JSC Gazprombank | Ba1 | Moody's | 2,892 | 1,781 |
| JSC UniCredit Bank | BBB | Fitch Ratings | 2,347 | 4,500 |
| PJSC ROSBANK | Baa3 | Moody's | 507 | 230 |
| OJSC Asian-Pacific Bank | B+ | Fitch Ratings | 278 | 170 |
| OJSC VTB Bank | BBB- | Standard & Poor’s | 65 | 2,150 |
| CJSC Raiffeisenbank | - | - | - | 652 |
| JSC Nordea Bank | - | - | - | 2,910 |
| Other | | | 396 | 691 |
| **Total cash equivalents** | | | **19,417** | **23,712** |

** Banks’ ratings are presented as at 31 December 2014. The ratings of several banks decreased after the year end.*

## Note 12. Accounts receivable and prepayments

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Trade receivables | 50,931 | 45,716 |
| Provision for impairment of trade receivables | (18,643) | (15,374) |
| **Trade receivables, net** | **32,288** | **30,342** |
| **VAT recoverable** | **8,683** | **8,059** |
| Advances to suppliers and other prepayments | 3,957 | 4,612 |
| Provision for impairment of advances to suppliers and other prepayments | (670) | (460) |
| **Advances to suppliers and other prepayments, net** | **3,287** | **4,152** |
| Other receivables | 6,637 | 5,350 |
| Provision for impairment of other receivables | (2,883) | (2,518) |
| **Other receivables, net** | **3,754** | **2,832** |
| **Total accounts receivable and prepayments** | **48,012** | **45,385** |

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). 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 carrying value approximates their fair value.

(in millions of Russian Rubles unless noted otherwise)

Movements in the impairment provision for accounts receivables and prepayments are as follows:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| As at 1 January | 18,352 | 14,465 |
| Charge for the year | 8,893 | 7,241 |
| Reversal of impairment | (3,346) | (2,754) |
| Trade receivables written-off as uncollectible | (1,626) | (618) |
| Disposal of impairment provision due to disposal of subsidiaries | (77) | - |
| Transfer of assets of the subsidiary acquired with a view for resale | - | 18 |
| **As at 31 December** | **22,196** | **18,352** |

The ageing analysis of trade and other finance accounts receivable is as follows:

| | 31 December 2014 | Provision as at 31 December 2014 | 31 December 2013 | Provision as at 31 December 2013 |
|---|---|---|---|---|
| Not past due | 26,143 | (967) | 23,855 | (547) |
| Past due for less than 3 months | 6,229 | (953) | 5,021 | (897) |
| Past due for 3 months to 1 year | 8,139 | (3,838) | 8,344 | (4,854) |
| Past due for more than 1 year | 16,127 | (15,768) | 13,183 | (11,594) |
| **Total** | **56,638** | **(21,526)** | **50,403** | **(17,892)** |

The majority of trade debtors which are neither past due nor impaired could be aggregated in several groups based on similarities in their credit quality: large industrial consumers – participants of the wholesale and retail electricity and capacity market as well as public sector entities and population.

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

## Note 13. Inventories

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Fuel | 13,229 | 13,329 |
| Materials and supplies | 6,383 | 6,249 |
| Spare parts | 2,085 | 1,524 |
| Other materials | 645 | 536 |
| **Total inventories before provision for impairment** | **22,342** | **21,638** |
| **Provision for impairment of inventories** | **(209)** | **(189)** |
| **Total inventories** | **22,133** | **21,449** |

There are no inventories pledged as collateral for borrowings as at 31 December 2014 and as at 31 December 2013.

## Note 14. Other current assets

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Deposits and promissory notes | 40,122 | 52,406 |
| Loans issued | 1,484 | 530 |
| Other short-term investments | 266 | 208 |
| **Total other current assets** | **41,872** | **53,144** |

| | Rating* | Rating agency | Effective interest rate | 31 December 2014 | 31 December 2013 |
|---|---|---|---|---|---|
| **Deposits** | | | | | |
| OJSC Sberbank of Russia | Baa2 | Moody's | 9.85–28.61% | 38,915 | 50,726 |
| CJSC Peresvet Bank | B+ | Standard & Poor's | 9.50–18.72% | 166 | 833 |
| Other deposits | | | | 768 | 306 |
| **Promissory notes** | | | | | |
| OJSC Alfa-Bank | Ba1 | Moody's | - | 195 | 416 |
| Other promissory notes | | | | 78 | 125 |
| **Total deposits and promissory notes** | | | | **40,122** | **52,406** |

** Banks' ratings are presented as at 31 December 2014. The ratings of several banks decreased after the year end.*

(in millions of Russian Rubles unless noted otherwise)

## Note 15. Equity

| | Number of issued and fully paid ordinary shares (Par value of RR 1.00) |
|---|---|
| As at 31 December 2014 | 386,255,464,890 |
| As at 31 December 2013 | 386,255,464,890 |
| As at 31 December 2012 | 317,637,520,094 |

***Additional share issue 2012–2013.*** On 16 November 2012 the Extraordinary General Meeting of shareholders of the Company adopted a resolution to make a placement of 110,000,000,000 ordinary shares with a par value of RR 1.00 by open subscription with cash and non-cash considerations. On 10 December 2012 the Board of Directors of the Company determined the placement price of RR 1.00 per share.

As part of this issue the Group received:

- in 2012 the funds in amount RR 50,000 million from the Russian Federation to fund construction of four heat power plants in the Far East region;
- in 2013 19.54 percent shares of OJSC RAO Energy System of East, 24.54 percent shares of OJSC SEC, 14.83 percent shares of OJSC Ust'-Srednekanskaya HPP, 42.75 percent shares of OJSC IENC, 0.08 percent shares of OJSC Irkutskenergo.

68,617,944,796 shares were actually placed as a result of the issue, which represents 62.38 percent of the additional issue's total number of securities.

The Report based on the results of additional share issue was registered by the Bank of Russia on 26 December 2013.

***Treasury shares.*** As at 31 December 2014 treasury shares were represented by 21,786,611,933 ordinary shares in the amount of RR 26,092 million (31 December 2013: 8,703,807,839 ordinary shares in the amount of RR 10,662 million).

In July 2014 3.39 percent of treasury shares were received by the Group's subsidiary OJSC HydroInvest from OJSC EuroSibEnergo in exchange of 25 percent minus 1 share of PJSC Krasnoyarskaya HPP (Note 8).

Treasury shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by entities within the Group are effectively controlled by management of the Group.

***Transactions with the Government and companies under common control.*** The change of merge reserve for the year ended 31 December 2013 in the amount of RR 7,859 million relates to assets that were received in 2013 from the Russian Federation and companies under common control in the course of additional share issue 2012–2013.

As a result of the increase in Group`s share in OJSC RAO Energy System of East non-controlling interest decreased by RR 6,563 million and retained earnings of the Group increased in the same amount.

As a result of the increase in Group`s share in OJSC Ust'-Srednekanskaya HPP non-controlling interest increased by RR 293 million and retained earnings of the Group decreased by the same amount due to increase of share of Group's shareholders in losses accumulated by OJSC Ust'-Srednekanskaya HPP.

***Effect of changes in non-controlling interest of subsidiaries.*** During 2014 the placement of additional share issue of OJSC Ust'-Srednekanskaya HPP and OJSC Zaramag HS were registered. As a result non-controlling interest increased by RR 78 million due to increase of share in losses of OJSC Ust'-Srednekanskaya HPP and OJSC Zaramag HS previously absorbed by shareholders of the Group.

In 2013 in the course of additional share issue 2012–2013 the Group also has received shares of OJSC RAO Energy System of East from shareholders which are not controlled by the Government. As a result non-controlling interest decreased by RR 2,671 million and retained earnings of the Group increased by RR 1,812 million.

***Dividends.*** In accordance with the Russian legislation the Company and its subsidiaries distribute profits as dividends on the basis of financial statements prepared in accordance with Russian accounting standards.

On 27 June 2014 the Company declared dividends for the year ended 31 December 2013 of RR 0.0136 per share in the total amount of RR 5,248 million (RR 5,130 million excluding dividends to subsidiaries).

On 28 June 2013 the Company declared dividends for the year ended 31 December 2012 of RR 0.0096 per share in the total amount of RR 3,675 million (RR 3,594 million excluding dividends to subsidiaries).

(in millions of Russian Rubles unless noted otherwise)

Dividends in favour of non-controlling interest holders were declared by the Group's subsidiaries in the amount of RR 80 million for the year ended 31 December 2014 (for the year ended 31 December 2013: RR 160 million).

### Note 16. Income tax

Income tax expense is as follows:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Current income tax expense | 7,450 | 10,248 |
| Deferred income tax / (benefit) | 610 | (6,056) |
| **Total income tax expense** | **8,060** | **4,192** |

The income tax rate applicable to the majority of the Group's entities for the year ended 31 December 2014 is 20 percent (for the year ended 31 December 2013: 20 percent).

A reconciliation between the expected and actual income tax expense is provided below:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Profit before income tax** | **32,191** | **25,185** |
| Theoretical tax expense at a statutory rate of 20 percent | (6,438) | (5,037) |
| Tax effect of items which are not deductible or assessable for taxation purposes | (1,469) | (2,335) |
| Change in unrecognised deferred tax assets in respect of investments in associates and joint ventures (Note 8) | (68) | 511 |
| Unrecognised deferred tax assets related to impairment of available-for-sale financial assets (Note 9) | (334) | (1,589) |
| (Increase) in other unrecognised deferred tax assets / Use of other deferred tax assets unrecognised in previous periods | (1,053) | 1,695 |
| Write-off of deferred tax related to subsidiary acquired exclusively with a view for resale (Note 2) | - | 1,873 |
| Other | 1,302 | 690 |
| **Total income tax expense** | **(8,060)** | **(4,192)** |

The total amount of deductible temporary differences for which deferred income tax assets have not been recognised by the Group as at 31 December 2014 comprised RR 51,960 million (31 December 2013: RR 46,574 million). These temporary differences mainly relate to accumulated impairment of property, plant and equipment, assets under construction and pension liabilities of several Group's subsidiaries.

***Deferred income tax.*** Differences between IFRS and statutory taxation regulations in the Russian Federation give rise to temporary differences between the carrying amount of certain 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 (for the year ended 31 December 2013: 20 percent).

(in millions of Russian Rubles unless noted otherwise)

| | 31 December 2013 | Income tax charge | Charged directly to other comprehensive income | Reclassification of discontinued operations and disposal of subsidiaries | 31 December 2014 |
|---|---|---|---|---|---|
| **Deferred income tax assets** | **4,066** | **1,621** | **(211)** | **(121)** | **5,355** |
| Property, plant and equipment | 3,284 | 166 | - | (25) | 3,425 |
| Accounts receivable | 5,631 | 179 | - | (11) | 5,799 |
| Losses carried forward | 1,199 | 453 | - | (78) | 1,574 |
| Other | 2,229 | 611 | (211) | (7) | 2,622 |
| *Deferred tax offset* | *(8,277)* | *212* | - | - | *(8,065)* |
| **Deferred income tax liabilities** | **(35,066)** | **(2,231)** | **1,406** | **-** | **(35,891)** |
| Property, plant and equipment | (42,452) | (2,395) | 1,544 | - | (43,303) |
| Accounts receivable | (78) | (44) | - | - | (122) |
| Loans and borrowings | (404) | 289 | - | - | (115) |
| Other | (409) | 131 | (138) | - | (416) |
| *Deferred tax offset* | *8,277* | *(212)* | - | - | *8,065* |

| | 31 December 2012 (restated) | Income tax charge | Charged directly to other comprehensive income | Reclassification of discontinued operations | Other movement | 31 December 2013 |
|---|---|---|---|---|---|---|
| **Deferred income tax assets** | **3,455** | **291** | **(29)** | **630** | **(281)** | **4,066** |
| Property, plant and equipment | 2,707 | 577 | - | - | - | 3,284 |
| Accounts receivable | 5,046 | 572 | - | 13 | - | 5,631 |
| Losses carried forward | 744 | 253 | - | 202 | - | 1,199 |
| Other | 1,683 | 441 | (29) | 415 | (281) | 2,229 |
| *Deferred tax offset* | *(6,725)* | *(1,552)* | - | - | - | *(8,277)* |
| **Deferred income tax liabilities** | **(42,937)** | **5,765** | **5,066** | **(2,960)** | **-** | **(35,066)** |
| Property, plant and equipment | (46,649) | 2,091 | 5,066 | (2,960) | - | (42,452) |
| Accounts receivable | (212) | 134 | - | - | - | (78) |
| Loans and borrowings | (410) | 6 | - | - | - | (404) |
| Investment in OJSC DRSK | (1,873) | 1,873 | - | - | - | - |
| Other | (518) | 109 | - | - | - | (409) |
| *Deferred tax offset* | *6,725* | *1,552* | - | - | - | *8,277* |

Under existing Group' structure tax losses and current income tax assets of different Group's entities may not be offset against current income tax liabilities and taxable profits of other Group's entities and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only when they relate to the same taxable entity and the entity has legal rights to offset it.

(in millions of Russian Rubles unless noted otherwise)

## Note 17. 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 among other non-current liabilities (Note 19):

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Fair value of plan assets | (986) | (856) |
| Present value of defined benefit obligations | 7,874 | 9,243 |
| **Net liability** | **6,888** | **8,387** |

The movements in the defined benefit liability for the years ended 31 December 2014 and 31 December 2013 are presented in the tables below:

| | Present value of defined benefit obligations | Fair value of plan assets | Total |
|---|---|---|---|
| **At 1 January 2014** | **9,243** | **(856)** | **8,387** |
| Recognition assets related to the OJSC DGK agreements | - | (35) | (35) |
| Current service cost | 407 | - | 407 |
| Interest expense / (income) | 725 | (70) | 655 |
| Past service cost | 343 | - | 343 |
| Curtailment in pension payment | (501) | - | (501) |
| Remeasurement effects (for other long-term benefits): | | | |
| Actuarial gain - changes in actuarial assumptions | (74) | - | (74) |
| Actuarial loss - experience adjustment | 203 | - | 203 |
| **Recognised in profit or loss for the year ended 31 December 2014** | **1,103** | **(70)** | **1,033** |
| Remeasurements (for post-employment benefits): | | | |
| Actuarial loss - change in demographic assumptions | 72 | - | 72 |
| Actuarial gain - change in financial assumptions | (2,190) | - | (2,190) |
| Actuarial loss - experience adjustments | 361 | 18 | 379 |
| **Recognised other comprehensive income for the year ended 31 December 2014 before income tax charge of RR 347 million** | **(1,757)** | **18** | **(1,739)** |
| Employer contributions for funded pension plan | - | (270) | (270) |
| Benefit payments (Funding NSPF pensions) | (400) | 227 | (173) |
| Benefit payments (Non-funded pension plan) | (315) | - | (315) |
| **At 31 December 2014** | **7,874** | **(986)** | **6,888** |

In July 2014 OJSC DGK decided to reduce payments to the pensioners. As a result the Group recognised RR 501 million gain for the year ended 31 December 2014 (Note 24).

(in millions of Russian Rubles unless noted otherwise)

| | Present value of defined benefit obligations | Fair value of plan assets | Total |
|---|---|---|---|
| **At 1 January 2013** | **10,482** | **(824)** | **9,658** |
| Reclassification of plan assets | **-** | 67 | 67 |
| Current service cost | 442 | - | 442 |
| Interest expense / (income) | 628 | (57) | 571 |
| Past service cost | 9 | - | 9 |
| Curtailment in pension plan | (1,609) | - | (1,609) |
| Remeasurement effects (for other long-term benefits): | | | |
| Actuarial gain - changes in actuarial assumptions | (17) | - | (17) |
| Actuarial gain - experience adjustment | (23) | - | (23) |
| **Recognised in profit or loss for the year ended 31 December 2013** | **(570)** | **(57)** | **(627)** |
| Remeasurements (for post-employment benefits): | | | |
| Actuarial loss - change in demographic assumptions | 249 | - | 249 |
| Actuarial gain - change in financial assumptions | (1,131) | - | (1,131) |
| Actuarial loss / (gain) - experience adjustments | 824 | (68) | 756 |
| **Recognised other comprehensive income for the year ended 31 December 2013 before income tax charge of RR 25 million** | **(58)** | **(68)** | **(126)** |
| Employer contributions for funded pension plan | - | (156) | (156) |
| Benefit payments (Funding NSPF pensions) | (325) | 182 | (143) |
| Benefit payments (Non-funded pension plan) | (286) | | (286) |
| **At 31 December 2013** | **9,243** | **(856)** | **8,387** |

In March 2013 OJSC DGK decided to cancel the defined benefit pension plan. The pension liability of the plan on cancellation date was RR 2,458 million. Following the defined benefit pension plan cancellation lump sum payment liabilities have increased for RR 315 million and periodical retirement payments liabilities have increased for RR 534 million. These payments were included in collective agreement and were alternatives for defined benefit pension plan. As a result the Group recognised RR 1,609 million curtailment gain for the year ended 31 December 2013.

Principal actuarial assumptions for the Group are as follows:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Nominal discount rate | 13.00% | 7.90% |
| Inflation rate | 7.00% | 5.10% |
| Wage growth rate | 8.50% | 6.60% |
| Staff turnover | Staff turnover depending on age based on statistics for three years | |
| Mortality table | Russia-2011* | Russia-2011 |

* *Taking into account the pull down adjustment calculated based on statistical data of mortality for employees of the Group of age till 60 years old for years 2012–2013*

(in millions of Russian Rubles unless noted otherwise)

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

| | **Change in assumption** | **Effect on net liability** | **Effect on net liability, %** |
|---|---|---|---|
| Nominal discount rate | + 1% | (568) | - 7% |
| | - 1% | 654 | 8% |
| Inflation rate | + 1% | 358 | 4% |
| | - 1% | (319) | - 4% |
| Wage growth rate | + 1% | 334 | 4% |
| | - 1% | (289) | - 3% |
| Staff turnover | + 3% | (321) | - 4% |
| | - 3% | 402 | 5% |
| Mortality Rates | + 10% | (532) | - 6% |
| | - 10% | 764 | 9% |

The Group expects to contribute RR 599 million to the defined benefit plans in 2015.

The weighted average duration of the defined benefit obligation of the Group is 8 years.

***Retirement benefit plan parameters and related risks.*** The Group has liabilities under retirement benefit plans in Russia. The retirement benefit plan includes benefits of the following types: lump sum payment upon retirement, jubilee benefits paid at certain age or upon completion of a certain number of years of service, financial aid and compensation to cover funeral expenses in the event of an employee’s or pensioner's death, financial aid provided to pensioners, pension benefits paid to former employees through the non-state pension fund (hereinafter referred to as the “NPF”).

The amount of benefits depends on the period of the employees' service (years of service), salary level over the recent years preceding retirement, predetermined fixed amount or minimum tariff rate of remuneration or salary or a combination of these factors.

As a rule, the above benefits are indexed according to the inflation rate and salary growth for benefits that depend on the salary level, excluding the retirement benefits paid through NPF, which are not indexed for the inflation rate at the time the payment is made (following the retirement of employees, all risks are borne by NPF).

In addition to the inflation risk, all retirement benefit plans of the Group are exposed to mortality and survival risks.

Plan assets held on NPF's accounts are governed in accordance with the local legislation and regulatory practices.

The Group and NPF are severally liable for plans management, including investments decisions and the contribution schedule.

NPF invests the Group's funds in a diversified portfolio. When investing pension savings and placing the pension reserves, NPF is guided by the Russian legislation that provides a strict regulation with respect to the possible list of financial instruments and restricts their utilisation, which also leads to diversification and reduces investment risks.

The Group transfers the obligation to pay lifelong non-state pension benefits to the Group's former employees to NPF and funds these obligations when awarding the pension. Therefore, the Group insures the risks related to payment of non-state pensions (investment risks and survival risks).

(in millions of Russian Rubles unless noted otherwise)

## Note 18. Current and non-current debt

*Non-current debt*

| | Effective interest rate | Due date | 31 December 2014 | 31 December 2013 |
|---|---|---|---|---|
| OJSC Sberbank of Russia | 7.98–12.72%/MosPrime 3M+2.1% | 2015–2022 | 48,473 | 46,295 |
| Russian bonds (OJSC RusHydro) issued in Febrary 2014 | 8.50% | 2018* | 20,628 | 20,478 |
| Eurobonds (RusHydro Finance Ltd) | 7.875% | 2015 | 20,281 | 20,254 |
| EBRD | MOSPRIME+1.50–3.45% / LIBOR6M+3.45% | 2015–2027 | 18,560 | 14,971 |
| Russian bonds (OJSC RusHydro) issued in April 2011 | 8.00% | 2016* | 15,233 | 15,225 |
| OJSC Bank of Moscow | MosPrime+2.20% | 2015 | 7,536 | 7,700 |
| UniCredit Bank Austria AG | 3.35%** | 2017–2026 | 5,580 | 2,523 |
| Crédit Agricole Corporate and Investment Bank Deutschland | Euribor 6M + 0.625% | 2029 | 5,211 | - |
| OJSC Bank VTB | 8.39% | 2015–2018 | 4,522 | 4,500 |
| PJSC ROSBANK | 8.99-11.10% | 2015–2016 | 4,481 | 1,558 |
| Municipal authority of Kamchatka region | 8.57% | 2034 | 2,526 | 1,572 |
| ASIAN Development bank | LIBOR6M+3.45% | 2017–2027 | 1,437 | - |
| JSC Gazprombank | 8.63–9.00% | 2015–2016 | 1,179 | 1,997 |
| Bayerische Landesbank | Euribor 6M + 0.85% | 2017–2025 | 965 | - |
| EM Falcon Ltd | - | - | | 1,517 |
| Other long-term debt | - | - | 1,112 | 1,282 |
| Finance lease liabilities | 8.70–21.00% | - | 2,313 | 2,082 |
| **Total** | | | **160,037** | **141,954** |
| Less current portion of non-current | | | (39,937) | (9,057) |
| Less current portion of finance lease liabilities | | | (913) | (1,007) |
| **Total non-current debt** | | | **119,187** | **131,890** |

** The bonds mature in 10 years with a put option to redeem them in 2018 and 2016 respectively.*

*** Fixed interest rate applied to 90 percent of the credit facility, to the rest 10 percent of the facility the quarterly variable export finance rate published by OeKB (Oesterreichische Kontrollbank AG) less 0.25 percent is applied.*

***Crédit Agricole Corporate and Investment Bank Deutschland.*** In March 2014 the Group concluded the loan agreement with Crédit Agricole Corporate and Investment Bank Deutschland for total amount of EUR 190 million for a period of 15 years for financing the upgrade of hydroturbines of Saratovskaya HPP.

***OJSC Sberbank of Russia.*** In April 2014 the Group obtained RR 2,776 million under the agreement of non-revolving credit line with OJSC Sberbank of Russia for financing of the operating, financial and investment activities including of refinancing of loans and borrowings.

***European Bank for Reconstruction and Development (hereinafter referred to as “EBRD”)***. In April 2014 the Group concluded the loan agreement with EBRD amounting RR 3,530 million for a period of 12 years to refinance the current liability of OJSC DRSK included in RAO Energy System of East subgroup.

(in millions of Russian Rubles unless noted otherwise)

*Current debt*

| | Effective interest rate | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| OJSC Bank VTB | 7.97–11.00% | 4,921 | 950 |
| PJSC ROSBANK | 7.50–15.60% | 4,096 | 3,419 |
| OJSC Sberbank of Russia | 7.20–16.43% | 3,331 | 2,350 |
| JSC Gazprombank | 8.63–15.50% | 2,076 | 2,323 |
| OJSC Alfa-Bank | 10.50% | 851 | - |
| CJSC Raiffeisenbank | 8.69–10.84% | 598 | - |
| Current portion of non-current debt | - | 39,937 | 9,057 |
| Current portion of finance lease liabilities | 8.70–21.00% | 913 | 1,007 |
| Other current debt | - | 1,120 | 781 |
| **Total current debt and current portion of non-current debt** | | **57,843** | **19,887** |
| *Reference:* | | | |
| Interest payable | | 2,190 | 1,768 |

***Compliance with covenants.*** The Group is subject to certain covenants related primarily to its debt. As at 31 December 2014 and 31 December 2013 the Group met all required covenant clauses of the credit agreements.

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

| | Due in 1 year | Due between 2 and 5 years | Due after 5 years | Total |
|---|---|---|---|---|
| **Minimum lease payments as at 31 December 2014** | **979** | **1,135** | **3,169** | **5,283** |
| Less future finance charges | (66) | (276) | (2,628) | (2,970) |
| **Present value of minimum lease payments as at 31 December 2014** | **913** | **859** | **541** | **2,313** |
| **Minimum lease payments as at 31 December 2013** | **1,044** | **1,420** | **-** | **2,464** |
| Less future finance charges | (37) | (345) | - | (382) |
| **Present value of minimum lease payments as at 31 December 2013** | **1,007** | **1,075** | **-** | **2,082** |

## Note 19. Other non-current liabilities

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Pension benefit obligations (Note 17) | 6,888 | 8,387 |
| Other non-current liabilities | 4,307 | 3,643 |
| **Total other non-current liabilities** | **11,195** | **12,030** |

## Note 20. Accounts payable and accruals

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Trade payables | 33,290 | 30,968 |
| Advances received | 7,824 | 8,869 |
| Settlements with personnel | 7,714 | 6,933 |
| Dividends payable | 88 | 85 |
| Other accounts payable | 2,642 | 2,618 |
| **Total accounts payable and accruals** | **51,558** | **49,473** |

All accounts payable and accruals are denominated in Russian Rubles.

## Note 21. Other taxes payable

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| VAT | 5,855 | 5,982 |
| Property tax | 2,717 | 2,412 |
| Insurance contributions | 2,404 | 1,937 |
| Other taxes | 937 | 613 |
| **Total other taxes payable** | **11,913** | **10,944** |

(in millions of Russian Rubles unless noted otherwise)

## Note 22. Revenue

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Sales of electricity | 239,543 | 230,925 |
| Sales of heat and hot water | 34,059 | 33,147 |
| Sales of capacity | 28,012 | 25,616 |
| Other revenue | 27,946 | 23,944 |
| **Total revenue** | **329,560** | **313,632** |

Other revenue includes revenue earned from transportation of electricity and heat, connections to the grid, rendering of construction, repairs and other services.

## Note 23. Government grants

In accordance with legislation of the Russian Federation several companies of the Group are entitled to government subsidies 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 the amount of RR 12,428 million (for the year ended 31 December 2013: RR 13,246 million) in the following subsidised territories: Kamchatsky territory, the Sakha Republic (Yakutia), Magadan Region and other Far East regions.

(in millions of Russian Rubles unless noted otherwise)

## Note 24. Operating expenses (excluding impairment losses)

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Employee benefit expenses (including payroll taxes and pension benefit expenses) | 65,114 | 56,907 |
| Purchased electricity and capacity | 57,504 | 54,622 |
| Fuel expenses | 46,639 | 44,472 |
| Electricity distribution expenses | 41,282 | 37,922 |
| Depreciation of property, plant and equipment and intangible assets | 21,340 | 18,218 |
| Other materials | 10,787 | 9,599 |
| Taxes other than on income | 9,008 | 9,295 |
| Third parties services, including: | | |
| Repairs and maintenance | 3,784 | 3,608 |
| Services of SO UES, ATS, CFS | 3,598 | 3,480 |
| Services of subcontracting companies | 3,404 | 5,096 |
| Security expenses | 3,122 | 2,759 |
| Purchase and transportation of heat power | 2,874 | 2,699 |
| Consulting, legal and information expenses | 2,437 | 1,575 |
| Rent | 2,033 | 1,802 |
| Insurance cost | 1,229 | 1,086 |
| Transportation expenses | 1,007 | 1,344 |
| Other third parties services | 5,811 | 4,703 |
| Water usage expenses | 2,656 | 2,742 |
| Social charges | 2,274 | 2,082 |
| Travel expenses | 1,780 | 1,453 |
| Loss on disposal of property, plant and equipment, net | 1,288 | 1,447 |
| Purchase of oil products for sale | 425 | 718 |
| Curtailment in pension payment and pension plan | (501) | (1,609) |
| Gain on disposal of subsidiaries and associates | (28) | (517) |
| Other expenses | 1,971 | 260 |
| **Total operating expenses (excluding impairment losses)** | **290,838** | **265,763** |

## Note 25. Finance income, costs

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| *Finance income* | | |
| Interest income | 7,407 | 7,917 |
| Foreign exchange gain | 1,404 | 485 |
| Gain on derivative financial instruments | 309 | 71 |
| Income on discounting | 109 | 677 |
| Other income | 90 | 178 |
| **Total finance income** | **9,319** | **9,328** |
| *Finance costs* | | |
| Interest expense | (4,879) | (7,259) |
| Foreign exchange loss | (3,218) | (635) |
| Expense on discounting | (1,438) | (690) |
| Finance lease expense | (115) | (323) |
| Other costs | (1,018) | (635) |
| **Total finance costs** | **(10,668)** | **(9,542)** |

(in millions of Russian Rubles unless noted otherwise)

## Note 26. Earnings per share

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Weighted average number of ordinary shares issued (thousands of shares) | 371,494,140 | 309,873,684 |
| Profit for the period attributable to the shareholders of OJSC RusHydro | 25,606 | 19,767 |
| **Earnings per share attributable to the shareholders of OJSC RusHydro – basic and diluted** (in Russian Rubles per share) | **0.0689** | **0.0638** |

## Note 27. Capital commitments

***Capital commitments.*** In accordance with investment programme of the Company and separate investment programmes of subsidiaries of RAO Energy System of East subgroup segment, the Group has to invest RR 341,208 million for the period 2015-2017 for reconstruction of the existing and construction of new power plants (RR 324,878 million for the period 2014-2016). Currently there are plans on revision of investment programs of the Company and subsidiaries of the Group.

Capital commitments of the Group as at 31 December 2014 are as follows: 2015 year – RR 144,745 million, 2016 year – RR 113,936 million, 2017 year – RR 82,527 million.

Future capital expenditures are mainly related to reconstruction of equipment of power plants: Saratovskaya HPP in the amount of RR 17,290 million, Zhigulevskaya HPP in the amount of RR 13,949 million, Volzhskaya HPP in the amount of RR 16,709 million; and to construction of power plants: Yakutskaya GRES-2 in the amount of RR 21,842 million, Nizhne-Bureiskaya HPP in the amount of RR 18,137 million, Sakhalin GRES-2 in the amount of RR 15,787 million, HPP in Sovetskaya Gavan in the amount of RR 15,051 million.

## Note 28. Contingencies

***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.

***Insurance.*** The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed for those risks for which it does not have insurance.

***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 legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax 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. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

During the year ended 31 December 2014 the Group's subsidiaries had controlled transactions and transactions which highly probably will be considered by tax authorities to be controlled based on the results of the year 2014. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. 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.

(in millions of Russian Rubles unless noted otherwise)

Management believes that as at 31 December 2014 its interpretation of the relevant legislation was appropriate and the Group's tax position would 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. Group accrued assets retirement obligation for ash damps used by the Group which is included in other non-current liabilities and other accounts payable and comprised RR 653 million as at 31 December 2014 (31 December 2013: RR 693 million).

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.

***Guarantees.*** The Group has issued guarantees for CJSC Boguchansky Aluminium Plant in favour of its suppliers for future equipment deliveries and for OJSC Boguchanskaya HPP in favour of the State Corporation Vnesheconombank for the loan facility:

| **Counterparty** | **31 December 2014** | **31 December 2013** |
|---|---|---|
| *for OJSC Boguchanskaya HPP:* | | |
| State Corporation Vnesheconombank | 28,106 | 25,605 |
| *for CJSC Boguchansky Aluminium Plant:* | | |
| ALSTOM Grid SAS | 134 | 82 |
| **Total guarantees issued** | **28,240** | **25,687** |

## Note 29. Financial risk management

The risk management function within the Group is carried out in respect of financial and operational risks. Financial risk comprise market risk (including currency risk, interest rate risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to provide reasonable assurance for achievement of the Group's objectives by establishing Group's overall framework, identifying, analyzing and evaluating risks, 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.

In order to optimise the Group's exposure to risks, the Company constantly works on their identification, assessment and monitoring, as well as the development and implementation of activities which impact on the risks, business continuity management and insurance, seeks to comply with international and national standards of advanced risk management (COSO ERM 2004, ISO 31000 and others), increases the culture of risk management and continuously improves risk management.

***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.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the Note 32.

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 or to minimise losses.

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

(in millions of Russian Rubles unless noted otherwise)

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide past due accounts receivable and other information about credit risk as disclosed in Note 12.

Cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. Management of the Group approved the list of banks for deposits, as well as rules for their placement. Moreover, management constantly evaluates the financial condition, ratings assigned by independent agencies, background and other factors of such banks.

The tables in Notes 10, 11 and 14 show deposits with banks and other financial institutions and their ratings at the end of the reporting period.

Credit risk for financial guarantees is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for other financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The Group's maximum exposure to credit risk for financial guarantees was RR 28,240 million as at 31 December 2014 (31 December 2013: RR 25,687 million) (Note 28).

***Market risk.*** The Group takes on exposure to market risks. Market risks arise from open positions in (i) foreign currencies, (ii) interest bearing assets and liabilities, 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 regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated.

***Currency risk.*** Electricity and capacity produced by the Group is sold on the domestic market of the Russian Federation at the prices fixed in Russian Rubles. Hence, the Group does not have significant foreign currency exchange risk. The financial condition of the Group, its liquidity, financing sources and the results of operations do not considerably depend on currency rates as the Group operations are planned to be performed in such a way that its assets and liabilities are to be denominated in the national currency.

The table below summarises the Group's exposure to foreign currency exchange rate risk:

| | 31 December 2014 | | | 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | **Monetary financial assets** | **Monetary financial liabilities** | **Net balance sheet position** | **Monetary financial assets** | **Monetary financial liabilities** | **Net balance sheet position** |
| USD | 3,300 | (5,464) | (2,164) | 782 | (2,232) | (1,450) |
| EUR | 2,310 | (12,292) | (9,982) | 682 | (2,988) | (2,306) |
| Other | 25 | - | 25 | 15 | - | 15 |
| **Total** | **5,635** | **(17,756)** | **(12,121)** | **1,479** | **(5,220)** | **(3,741)** |

The above analysis includes only monetary assets and liabilities. Equity investments and non-monetary assets are not considered to give rise to any material currency risk.

There is no significant effect of the changes of foreign currency rates on the Group's financial position.

***Interest rate risk.*** The Group's operating profits and cash flows from operating activities are not dependent largely on the changes in the market interest rates. Borrowings issued at variable rates (Note 18) expose the Group to cash flow interest rate risk.

The Group obtains debt financing with floating rates, which are established on the basis of the MOSPRIME, Euribor, Libor rates.

As at 31 December 2014, had interest rates at that date been 6 percent higher (31 December 2013: 0.5 percent higher), with all other variables held constant, profit for the year ended 31 December 2014 and the amount of capital that the Group managed as at 31 December 2014 would have been RR 2 093 million (31 December 2013: RR 182 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

The Group monitors interest rates for its financial instruments. Effective interest rates are disclosed in Note 18.

(in millions of Russian Rubles unless noted otherwise)

For the purpose of interest risk reduction the Group makes the following arrangements:

- credit market monitoring to identify favourable credit conditions,
- diversification of credit portfolio by raising of borrowings with fixed rates and floating rates.

***Liquidity risk.*** Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities and the availability of funding from an adequate amount of committed credit facilities. The Group adheres to the balanced model of financing of working capital – both at the expense of short-term sources and long-term sources. Temporarily free funds are placed into short-term financial instruments, mainly bank deposits and short-term bank promissory notes. Current liabilities are represented mainly by the accounts payable to suppliers and contractors.

The Group has implemented a control system under its contract conclusion process by introducing and applying typical financial arrangements which include standardised payment structure, payment deadlines, percentage ratio between advance and final settlement, etc. In such a manner the Group controls capital maturity.

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). Such undiscounted cash flows differ from the amount included in the Consolidated Statement of Financial Position because this amount is based on the discounted cash flows.

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

| | 2015 year | 2016 year | 2017 year | 2018 year | 2019 year | Starting from year 2020 |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Current and non-current debt | 67,650 | 30,036 | 10,676 | 44,154 | 12,325 | 64,984 |
| Trade payables (Note 20) | 33,290 | - | - | - | - | - |
| Financial guarantees (Note 28) | 842 | 636 | 771 | 1,008 | 1,269 | 23,714 |
| Dividends payable (Note 20) | 88 | - | - | - | - | - |
| Finance lease liabilities (Note 18) | 979 | 449 | 367 | 192 | 127 | 3,169 |
| Net settled derivatives | 103 | 118 | 65 | 36 | 20 | 7 |
| **Total future payments, including principal and interest payments** | **102,952** | **31,239** | **11,879** | **45,390** | **13,741** | **91,874** |
| **Liabilities of disposal group** | **496** | **-** | **-** | **-** | **-** | **-** |

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

| | 2014 year | 2015 year | 2016 year | 2017 year | 2018 year | Starting from year 2019 |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Current and non-current debt | 31,678 | 51,943 | 26,024 | 9,466 | 47,280 | 38,020 |
| Trade payables (Note 20) | 30,968 | - | - | - | - | - |
| Financial guarantees (Note 28) | - | 727 | 579 | 702 | 919 | 22,760 |
| Dividends payable (Note 20) | 85 | - | - | - | - | - |
| Finance lease liabilities (Note 18) | 1,044 | 778 | 334 | 244 | 64 | - |
| Net settled derivatives | (14) | 10 | 13 | 8 | 7 | 8 |
| **Total future payments, including principal and interest payments** | **63,761** | **53,458** | **26,950** | **10,420** | **48,270** | **60,788** |

(in millions of Russian Rubles unless noted otherwise)

## Note 30. Management of capital

Compliance with Russian legislation requirements and capital cost reduction are key objectives 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 1,000 minimum shares on the date of the company's registration;
- if the share capital of the entity is more than the statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- if the minimum allowed share capital is more than the statutory net assets 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 objectives in respect of capital management are 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 was RR 595,151 million (31 December 2013: RR 596,707 million).

Consistent with others in the energy industry, the Group monitors the gearing ratio, that is calculated as the total debt divided by the total capital. Debt is calculated as a sum of non-current and current debt, as shown in the Consolidated Statement of Financial Position. Total capital is equal to the total equity, as shown in the Consolidated Statement of Financial Position. The gearing ratio was 0.30 as at 31 December 2014 (31 December 2013: 0.25).

## Note 31. Fair value of assets and liabilities

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).

### *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:

| **31 December 2014** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Available-for-sale financial assets | 4,055 | - | 77 | **4,132** |
| **Non-financial assets** | | | | |
| Property, plant and equipment (except for construction in progress, office buildings and land) | - | - | 451,262 | **451,262** |
| **Total assets recurring fair value measurements** | **4,055** | **-** | **451,339** | **455,394** |
| **31 December 2013** | | | | |
| **Financial assets** | | | | |
| Available-for-sale financial assets | 5,766 | - | 28 | **5,794** |
| **Non-financial assets** | | | | |
| Property, plant and equipment (except for construction in progress, office buildings and land) | - | - | 437,737 | **437,737** |
| **Total assets recurring fair value measurements** | **5,766** | **-** | **437,765** | **443,531** |

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

(in millions of Russian Rubles unless noted otherwise)

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 | Reasonable change | Sensitivity of fair value measurement |
|---|---|---|---|---|---|
| **Non-financial assets** | | | | | |
| Property, plant and equipment (except for construction in progress, office buildings and land) | 451,262 | Replacement cost and discounted cash flows | Electricity and capacity prices | -10% | (19,894) |
| | | | Discount rate | +1% | (31,072) |
| | | | Capital expenditures | +10% | (19,382) |
| **Total recurring fair value measurements at Level 3** | **451,262** | | | | **(60,348)** |

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 (Level 1 of the fair value hierarchy) and accounts receivable (Level 3 of the fair value hierarchy) approximates their carrying value. The fair value of long term accounts receivable, other non-current and current assets 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. The fair value of bonds is based on quoted market prices (Level 1 of the fair value hierarchy). 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 the carrying value of bonds exceeded their fair value by RR 2,527 million. As at 31 December 2013 fair value of bonds approximated their carrying value.

As at 31 December 2014 the carrying value of non-current fixed rate debt exceeded their fair value by RR 7,319 million. As at 31 December 2013 fair value of non-current fixed rate debt approximated their carrying value.

(in millions of Russian Rubles unless noted otherwise)

## Note 32. 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 10)** | **7,297** | **-** | **7,297** |
| Promissory notes | 6,158 | - | 6,158 |
| Deposits | 585 | - | 585 |
| Long-term loans issued | 373 | - | 373 |
| Net settled derivatives | 181 | - | 181 |
| **Available-for-sale financial assets (Note 9)** | **-** | **4,132** | **4,132** |
| **Trade and other receivables (Note 12)** | **35,113** | **-** | **35,113** |
| Trade receivables | 32,288 | - | 32,288 |
| Promissory notes receivable | 13 | - | 13 |
| Other financial receivables | 2,812 | - | 2,812 |
| **Other current assets (Note 14)** | **41,703** | **-** | **41,703** |
| Deposits and promissory notes | 40,122 | - | 40,122 |
| Short-term loans issued | 1,484 | - | 1,484 |
| Net settled derivatives | 97 | - | 97 |
| **Cash and cash equivalents (Note 11)** | **34,394** | **-** | **34,394** |
| **Total financial assets** | **118,507** | **4,132** | **122,639** |
| **Non-financial assets** | | | **760,467** |
| **Non-current assets and assets of disposal group classified as held for sale** | | | **664** |
| **Total assets** | | | **883,770** |

All of the Group's financial liabilities are carried at amortised cost. Financial liabilities are represented mainly by the current and non-current debt (Note 18), trade payables and other account payable (Note 20).

The following table provides a reconciliation of financial assets with the measurement categories as at 31 December 2013:

| | Loans and receivables | Available-for-sale financial assets | Total |
|---|---|---|---|
| **Assets** | | | |
| **Other non-current assets (Note 10)** | **5,915** | **-** | **5,915** |
| Promissory notes | 5,644 | - | 5,644 |
| Deposits | 38 | - | 38 |
| Long-term loans issued | 196 | - | 196 |
| Net settled derivatives | 37 | - | 37 |
| **Available-for-sale financial assets (Note 9)** | **-** | **5,794** | **5,794** |
| **Trade and other receivables (Note 12)** | **32,511** | **-** | **32,511** |
| Trade receivables | 30,342 | - | 30,342 |
| Promissory notes receivable | 1 | - | 1 |
| Other financial receivables | 2,168 | - | 2,168 |
| **Other current assets (Note 14)** | **52,936** | **-** | **52,936** |
| Deposits and promissory notes | 52,406 | - | 52,406 |
| Short-term loans issued | 530 | - | 530 |
| **Cash and cash equivalents (Note 11)** | **34,472** | **-** | **34,472** |
| **Total financial assets** | **125,834** | **5,794** | **131,628** |
| **Non-financial assets** | | | **724,484** |
| **Total assets** | | | **856,112** |

## Note 33. Subsequent events

There were no significant subsequent events that can influence the Group's financial position, cash flows or operating results which took place during the period between reporting date and date of signing of the Group's consolidated financial statements for the year ended 31 December 2014 prepared in accordance to IFRS.