MOSENERGO Group

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report
for the year ended 31 December 2014

pwc

Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company Mosenergo (OJSC Mosenergo)

We have audited the accompanying consolidated financial statements of OJSC Mosenergo and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of comprehensive income, changes in shareholders' 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.

ZAO PricewaterhouseCoopers Audit, 10 Butyrsky Val, Moscow, Russian Federation, 125047
T: +7 495 967 6000, F: +7 495 967 6001, www.pwc.ru

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

O. I. Kabanova, Director (licence no. 01-000533), ZAO PricewaterhouseCoopers Audit

Audited entity: OJSC Mosenergo

State registration certificate № 012.473, issued by Moscow city registration chamber on 6 April 1993

Certificate of inclusion in the Unified State Register of Legal Entities № 1027700302420 issued on 11 October 2002

119526, Russian Federation, Moscow, Vernadskogo pr., 101, bld.3

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

MOSENERGO Group
Consolidated Statement of Financial Position
(in millions of Russian Roubles)

	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	7	263.287	273.766
Investment property	8	805	800
Goodwill	4	-	2.059
Advances for acquisition of property, plant and equipment		2.546	6.372
Long-term financial assets	11	3.385	3.350
Trade and other receivables	12	6.588	784
Other non-current assets	14	9.540	5.184
Total non-current assets		**286,151**	**292,315**
Current assets			
Cash and cash equivalents	10	9.677	2.871
Short-term financial assets	11	3.220	541
Trade and other receivables	12	38.938	34.689
Inventories	13	7.636	7.136
Income tax receivable		1	384
Other current assets	14	240	457
		59,712	**46,078**
Assets classified as held for sale	9	2.208	563
Total current assets		**61,920**	**46,641**
Total assets		**348,071**	**338,956**
EQUITY AND LIABILITIES			
Equity	15		
Share capital		166.124	166.124
Treasury stock		(871)	(871)
Share premium		49.213	49.213
Reserves		121.204	130.779
Accumulated loss		(94.503)	(86.860)
Total equity attributable to equity holders of the Group		**241,167**	**258,385**
Non-controlling interest	1	528	737
Total equity		**241,695**	**259,122**
Non-current liabilities			
Non-current borrowings	16	47.315	19.202
Deferred tax liabilities	28	31.355	37.791
Employee benefits	17	274	374
Trade and other payables	18	4.719	919
Total non-current liabilities		**83,663**	**58,286**
Current liabilities			
Current borrowings and current portion of non-current borrowings	16	1.824	7.275
Trade and other payables	18	17.762	13.288
Income tax payable		817	4
Other taxes payable	19	1.108	861
Provisions	20	187	50
		21,698	**21,478**
Liabilities classified as held for sale	9	1.015	70
Total current liabilities		**22,713**	**21,548**
Total liabilities		**106,376**	**79,834**
Total equity and liabilities		**348,071**	**338,956**

General Director V.G. Yakovlev

Chief Accountant E.Y. Novenkova

«25» March 2015

MOSENERGO Group
Consolidated Statement of Comprehensive Income
(in millions of Russian Roubles)

	Note	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Continuing operations			
Revenue	21	161.432	155.932
Other operating income	26	2.615	1.015
Cost of materials	22	(106.178)	(100.611)
Depreciation of property, plant and equipment	7	(15.469)	(13.965)
Personnel expenses	24	(9.935)	(9.360)
Heat transmission		(7.330)	(7.641)
Maintenance and repairs expenses		(5.416)	(4.743)
Other external supplies	23	(3.539)	(4.101)
Taxes other than income tax		(1.736)	(391)
Impairment loss on property, plant and equipment	7	(7.019)	(902)
Other operating expenses	25	(5.854)	(5.396)
Results from operating activities		**1,571**	**9,837**
Financial income	27	1.087	614
Financial expenses	27	(5.962)	(1.283)
(Loss)/profit before income tax from continuing operations		**(3,304)**	**9,168**
Income tax benefit /(expense)	28	564	(1.708)
(Loss)/profit for the year from continuing operations		**(2,740)**	**7,460**
Disontinued operations			
(Loss)/profit after tax for the year from discontinued operations	29	(327)	24
(Loss)/profit for the year		**(3,067)**	**7,484**
Other comprehensive (loss)/income			
Items that will not be reclassified to profit or loss:			
(Impairment loss)/reversal of impairment loss on property, plant and equipment	28	(9.631)	290
Revaluation of property, plant and equipment	28	-	46.771
Remeasurement of post employee benefit obligation	28	56	35
Effect of aquistions under common control	28	(3.087)	-
Other comprehensive (loss)/income for the year, net of tax		**(12,662)**	**47,096**
Total comprehensive (loss)/income for the year		**(15,729)**	**54,580**
(Loss)/profit attributable to:			
Equity holders of the Group		(2.972)	7.473
Non-controlling interest		(95)	11
Total comprehensive (loss)/income is attributable to:			
Equity holders of the Group		(15.634)	54.565
Non-controlling interest		(95)	15
Basic and diluted earnings per share (in Russian Roubles)	30	**(0.08)**	**0.19**

General Director V.G. Yakovlev

Chief Accountant E.Y. Novenkova

«25» March 2015

(in millions of Russian Roubles)

	Note	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Cash flow from operating activities			
(Loss)/profit before income tax including discontinuing operation		**(3,688)**	**9,189**
Adjustments for:			
Depreciation of property, plant and equipment	7	15,508	13,972
Financial income	27	(1,087)	(614)
Financial expenses	27	5,807	1,534
Impairment of trade and other resivables	25	2,038	2,506
Loss on disposal of property, plant and equipment	25	304	198
Impairment of assets classified as held for sale	25	137	26
Gain from disposal of subsidiaries	26	(1,203)	-
Gain from disposal of assets classified as held for sale	26	(218)	(61)
Dividend income	26	(91)	-
Gains of investment property fair value	26	-	(9)
Impairment of property, plant and equipment	7	7,019	902
Litigations provision charge	20	199	28
Other non-cash items		-	(1)
Operating cash flows before changes in working capital and provisions		**24,725**	**27,670**
Change in trade and other receivables		(10,186)	(9,016)
Change in inventories		(849)	103
Change in other current and non-current assets		(16)	156
Change in taxes payables, other than income tax		618	(257)
Change in trade and other payables		2,220	(4,140)
Change in employee benefit		(98)	(8)
Change in provisions		(62)	(45)
Cash flows from operations before income tax and interest paid		**16,352**	**14,463**
Income tax paid		(2,609)	(2,229)
Interest paid		(99)	-
Cash flows from operating activities		**13,644**	**12,234**
Cash flows used in investing activities			
Proceeds from sale of assets classified as held for sale		870	530
Proceeds from disposal of investments		1,002	4,899
Interest received		363	279
Divdidend received		48	19
Acquisition of property, plant and equipment		(17,660)	(27,780)
Acquisition of subsidiary, net of cash acquired		(497)	(1,631)
Proceeds from disposal of subsidiaries, net of disposed cash	9	1,024	-
Interest paid and capitalised		(3,071)	(962)
Grid connection		(4,500)	(1,894)
Debt fee		-	(199)
Cash flows used in investing activities		**(22,421)**	**(26,739)**
Cash flows from financing activities			
Proceeds from borrowings		36,575	10,316
Return of commission		367	-
Repayment of borrowings		(19,605)	(4,635)
Dividends paid		(1,599)	(1,168)
Cash flows from/(used in) financing activities		**15,738**	**4,513**
Net increase/(decrease) in cash and cash equivalents		6,961	(9,992)
Cash and cash equivalents at the beginning of the year	10	2,871	12,632
Exchange (loss)/gain on cash and cash equivalents		(155)	231
Cash and cash equivalents at the end of the year	10	**9,677**	**2,871**

General Director V.G. Yakovlev

Chief Accountant E.Y. Novenkova

«25» March 2015

MOSENERGO Group
Consolidated Statement of Changes in Equity
(in millions of Russian Roubles)

	Note	Attributable to equity holders of the Group						Non-controlling interest	Total Equity
		Share capital	Treasury stock	Share premium	Reserves	Accumulated loss	Total		
Balance at 31 December 2012 (restated)		**166,124**	**(871)**	**49,213**	**83,781**	**(93,142)**	**205,105**	**531**	**205,636**
Effect of changes in accounting policies	3	-	-	-	(94)	(3)	(97)		(97)
Balance at 1 January 2013 (restated)		**166,124**	**(871)**	**49,213**	**83,687**	**(93,145)**	**205,008**	**531**	**205,539**
Profit for the year		-	-	-	-	7,473	7,473	11	7,484
Other comprehensive income for the year:									
Remeasurement of post employee benefit obligation	28	-	-	-	35	-	35	-	35
Reversal of impairment of property, plant and equipment	28	-	-	-	290	-	290	-	290
Revaluation of property, plant and equipment	28	-	-	-	46,767	-	46,767	4	46,771
Total comprehensive income for the year (restated)		-	-	-	**47,092**	**7,473**	**54,565**	**15**	**54,580**
Non-controlling interest arising from business combination		-	-	-	-	-	-	191	191
Dividends		-	-	-	-	(1,188)	(1,188)	-	(1,188)
Balance at 31 December 2013 (restated)		**166,124**	**(871)**	**49,213**	**130,779**	**(86,860)**	**258,385**	**737**	**259,122**
Balance at 1 January 2014		**166,124**	**(871)**	**49,213**	**130,779**	**(86,860)**	**258,385**	**737**	**259,122**
Loss for the year		-	-	-	-	(2,972)	(2,972)	(95)	**(3,067)**
Other comprehensive income/ (loss) for the year:									
Remeasurement of post employee benefit obligation	28	-	-	-	56	-	56	-	56
Impairment of property, plant and equipment	28	-	-	-	(9,631)	-	(9,631)	-	(9,631)
Effect of aquistions under common control	28	-	-	-	-	(3,087)	(3,087)	-	(3,087)
Total comprehensive loss for the year		-	-	-	**(9,575)**	**(6,059)**	**(15,634)**	**(95)**	**(15,729)**
Disposal of non-controlling interest		-	-	-	-	-	-	(94)	(94)
Dividends	1.15	-	-	-		(1,584)	(1,584)	(20)	(1,604)
Balance at 31 December 2014		**166,124**	**(871)**	**49,213**	**121,204**	**(94,503)**	**241,167**	**528**	**241,695**

General Director — V.G. Yakovlev

Chief Accountant — E.Y. Novenkova

«25» March 2015

Note 1. The Group and its operations

(a) Organisation and operations

The Open Joint Stock Company "Mosenergo" (the "Company") and its subsidiaries (together referred as the "Group" or the "Mosenergo Group") are primarily involved in the generation of heat and electric power and heat distribution services in the Moscow city and Moscow region.

The Group's power and heat generation base includes 15 power plants with operational capacity of approximately 12,737 megawatts ("MW") and 42,264 gigacalories/hour ("Gkal/h") of electricity and heat capacity.

OJSC "Mosenergo" was registered under the legislation of the Russian Federation at 6 April 1993 in accordance with State Property Management Committee Decree 169-R dated 26 March 1993 following the privatisation process of electricity and heat power generation, transmission and distribution assets formerly under control of the Ministry of Energy of the Russian Federation.

The Company's registered office is located at 101/3, Prospekt Vernadskogo, Moscow, 119526, Russian Federation.

(b) Group formation

At 1 April 2005, the Company was reorganised through a spin-off following the reorganisation process within the Russian electricity sector aimed to introduce competition into the electricity market and to enable the companies of the electricity sector to maintain and further expand production capacity. The Company's restructuring was approved by general shareholder's meeting at 28 June 2004. Before the restructuring took place the Company operated an integrated utility model, which included generation, transmission and distribution activities. As a result of the restructuring 13 new entities were separated from the Company and each shareholder of the Company received ordinary shares of each of the separated entities pro rata to Company's shares held by them prior to spin-off.

A general shareholders' meeting held at 20 December 2006 approved a closed subscription for the additional shares issued in favor of OJSC "Gazprom" and its affiliates (together referred as the "Gazprom Group"). As a result, the majority shareholder of OJSC "Mosenergo" changed from RAO UES of Russia to Gazprom Group holding 53.49% of ordinary shares. Following the reorganisation process, an extraordinary general shareholder's meeting of RAO UES of Russia at 26 October 2007 approved the spin-off of several holding companies to which shares in electricity generation companies, including OJSC "Mosenergo", held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in generation companies after reorganisation. Accordingly, upon spin-off from RAO UES of Russia OJSC "Mosenergo Holding" (the "Mosenergo Holding") received the stake in OJSC "Mosenergo" held by RAO UES of Russia. Simultaneously with the spin-off "Mosenergo Holding" was merged with the Company and its shares were converted into the Company's shares.

In February 2009, the Company's Board of Directors approved a program to improve the Company's organisational structure, which is aimed at concentrating production resources and optimising the labor capacity and supply chain. Organisational structure optimisation included the merger of several production branches situated geographically close to each other and reallocation and outsourcing of non-core functions.

In April 2009 OJSC "Gazprom" transferred its 53.49% share in the Company to its 100% subsidiary LLC "Gazprom energoholding" (previously - LLC "Gazoenergeticheskaya Kompaniya") which became the parent company of OJSC "Mosenergo".

(c) Business environment

The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject varying interpretation (Note 33). During 2014 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2014:

- the CBRF exchange rate fluctuated between RR 45.0559 and RR 84.5890 per EUR;
- the CBRF key refinancing interest rate increased from 5.5% p.a. to 17.0% p.a. including an increase from 10.5% p.a. to 17.0% p.a. on 16 December 2014;
- the RTS stock exchange index ranged between 1 445 and 791;
- access to international financial markets to raise funding was limited for certain entities;
- capital outflows increased compared to prior years

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

- the CBRF exchange rate fluctuated between RR 64.6232 per EUR and RR 78.7900 per EUR;

- Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB-, whilst Standard&Poor's cut it to BB+, putting it below investment grade for the first time in a decade. Moody's Investors Service and Fitch Ratings still have Russia as investment grade. However all these rating agencies indicated a negative outlook, meaning further downgrades are possible;
- the RTS stock exchange index ranged between 737 and 929;
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased ending and exchange rates;
- the CBRF key refinancing interest rate decreased from 17.0% p.a. to 14.0% p.a.

These events could have significant negative effects on the Russian financial and corporate sectors. Management assessed possible impairment of the Group's property, plant and equipment by considering the current economic environment and outlook. The future economic and regulatory situation may differ from management's current expectations.

(d) Relations with the state and current regulation

At the end of the reporting period the Russian Federation owned (both direct and indirect ownership) over 50% in OJSC "Gazprom" (the previous "Parent"), which holds 53.49% of the Company through its 100% subsidiary LLC "Gazprom energoholding" (immediate parent company). Thus the OJSC "Gazprom" is the ultimate parent company of the Group and the Russian Federation is the ultimate controlling party of the Group.

The government of the Russian Federation directly affects the Group's operations through regulations of wholesale and retail sales of electricity and heat exercised by the Federal Service on Tariffs (the "FST") and the Regional Energy Commissions of Moscow and Moscow region (the "RECs"). OJSC "System Operator of the United Power System" (the "SO UPS"), which is controlled by the Russian Federation, regulates operations of generating assets of the Group.

The Group's customer base, as well as its supply chain, includes a large number of entities controlled by or related to the state.

As described in Note 6 and Note 32, the government's economic, social and other policies could materially affect operations of the Group.

(e) Industry restructuring

Following the restructuring of the Russian electric utility sector aimed to introduce competition to the electricity (capacity) market, the New Wholesale Electric Power (capacity) Market Rules of the Transitional period (the "NOREM"), approved by Resolution of the Government of the Russian Federation № 529 dated 31 August 2006, were adopted. Under this new framework, electricity and capacity purchase-sales transactions in the regulated market sector are to be governed by a regulated bilateral contract system. Starting 1 September 2006 regulated contracts covered all volumes of electricity and capacity produced and consumed.

Starting 2007, the volumes of electricity and capacity traded in the wholesale market applying regulated prices are to be substantially reduced pursuant to Russian Federation Government Resolution No. 205 dated 7 April 2007 "On amending certain resolutions of the Russian Federation Government related to the calculation of electricity volumes sold at free (competitive) prices". The Resolution states that electricity and capacity supplied at regulated prices will gradually decrease.

Electricity volumes produced, not covered by the regulated contracts, are traded at unregulated prices on the basis of free bilateral contracts or on a day-ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers the day before the electricity is supplied.

Starting from 2011, electricity and capacity (except for supplies to the population and equivalent consumer categories under regulated contracts) have been supplied at unregulated prices. Electricity is supplied at free prices on the day-ahead market and balancing market while capacity is supplied based on competitive capacity selection under the contracts for sales of capacity. Furthermore, separate contracts are concluded for capacity, which is generated by assets operating under forced mode and traded at tariffs approved by the Russian Federal Tariff Service (FTS). Non-regulated bilateral contracts for supply of electricity and capacity may be also concluded.

Agreements for the provision of facilities provide on the one hand the obligations for suppliers to implement approved investment programs, and on the other hand give a guarantee of payment capacity of the new (upgraded) generating facilities from the Russian Government.

(in millions of Russian Roubles)

(f) Scope of consolidation

OJSC "Mosenergo" and its following subsidiaries form the Mosenergo Group:

	Percentage of ownership	
	31 December 2014	**31 December 2013**
LLC "TSK Mosenergo"	100%	100%
LLC "Centralny remontno-mekhanicheskiy zavod"	100%	100%
LLC "OGK-Investproject"	90.5%	90.5%
LLC "Telpoenergoremont"	-	65%
LLC "Telpoenergoremont-Novomichurinsk"	-	65%
LLC "Telpoenergoremont-Moskva"	-	72%
OJSC "Remont ingenernyh kommunikaciy"	-	65%
Autonomous Non-Commercial Organization "KvaliTEK"	-	65%

On 30 October 2013 the Company acquired 65% of the share capital of LLC "Teploenergoremont" for cash consideration of RR 1,951 million and 20% of the share capital of LLC "Teploenergoremont-Moskva" for cash consideration of RR 487 million (80% of the share capital of LLC "Teploenergoremont-Moskva" is held by LLC "Teploenergoremont"). As a result of the acquisition the Group obtained control over the LLC "Teploenergoremont" and its subsidiaries listed above (the "TER Group") which is presented by the group of companies providing repair and modernization of power plants equipment. The acquisition price was determined by the independent appraiser. In October 2014 the Company disposed "TER Group". (Note 9).

On 23 April 2014 the Company formed 100% subsidiary LLC "GES-2". The company is involved in the generation of heat and electricity. On 8 October 2014 the Company disposed share in LLC "GES-2" (Note 9).

(g) Principal subsidiaries

	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares held by Mosenergo Group (%)	Proportion of ordinary shares held by non-controlling interests (%)
LLC "TSK Mosenergo"	Russia	Heat and water supplier	100%	100%	-
LLC "Centralny remontno-mekhanicheskiy zavod"	Russia	Repair and reconstruction services	100%	100%	-
LLC "OGK-Investproject"	Russia	Construction	90.5%	90.5%	9.5%

No preference shares held by the Group.

The following table provides information about each subsidiary that has material non-controlling interest:

	Proportion of non-controlling interest's voting rights held	Profit/(loss) attributable to non-controlling interest	Other comprehensive income attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
31 December 2014					
LLC "OGK-Investproject"	9.5%	(11)	-	528	-
Total	-	**(11)**	-	**528**	-
31 December 2013					
LLC "OGK-Investproject"	9.5%	4	4	(539)	-
LLC "Telpoenergoremont-Moskva"	28%	8	-	(43)	-
LLC "Telpoenergoremont"	35%	(1)	-	(155)	-
Total	-	**11**	**4**	**(737)**	-

(in millions of Russian Roubles)

The following table summarised financial information about each subsidiary, that has material non-controlling interest, before any intra-group eliminations:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Total comprehensive income/(loss)
As of and for the year ended 31 December 2014							
LLC "OGK-Investproject"	1,281	18,133	(977)	(12,883)	276	(124)	(124)
Total	**1,281**	**18,133**	**(977)**	**(12,883)**	**276**	**(124)**	**(124)**
As of and for the year ended 31 December 2013							
LLC "OGK-Investproject"	474	14,578	(655)	(8,859)	5	21	16
LLC "Telpoenergoremont-Moskva"	1,597	139	(1,571)	-	790	30	29
LLC "Telpoenergoremont"	795	84	(437)	-	512	(6)	(3)
Total	**2,866**	**14,801**	**(2,663)**	**(8,859)**	**1,307**	**45**	**42**

Note 2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment and investment property are revalued periodically; available-for-sale financial assets are measured at fair value; and the carrying amounts of equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes at 1 January 2003.

The methods used to measure fair values are discussed further in Note 3.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (RR), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RR has been rounded to the nearest million.

(d) Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 7 – impairment test: key assumptions underlying recoverable amounts;
- Note 17 – measurement of defined benefit obligation: key actuarial assumptions;
- Note 20, 33 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow;
- Note 34 – aggregation of operating segments;
- Note 11 – lack of significant influence in ivestment equity.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 7 – fair value determination of property, plant and equipment;
- Note 8 – fair value determination of investment property;
- Note 9 – fair value determination of non-current assets classified as held for sale;
- Note 31 – fair value determination of financial instruments.

Note 3. Significant accounting policies

(a) Adoption of new or revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2014:

- Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities - (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).
- 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).
- IFRIC 21 - Levies (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014).
- 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 Group is currently assessing the impact of the amendments on its 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).

(b) New Standards and Interpretations

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, 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.

- 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 material impact on the Group's financial statements.

- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). 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'.
  - IFRS 3 was amended to clarify that (1) 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 (2) 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.
  - IFRS 8 was amended to require (1) 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 (2) 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.
- 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: IFRS 1, IFRS 3, IFRS 13 and IAS 40.
- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The amended standard did not have a material impact on the Group.
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (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.
- Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016) – Clarification of Acceptable Methods of Depreciation and Amortisation - 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.
- 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.

- Amendments to IAS 27 – Equity Method in Separate Financial Statements (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (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.
- 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 4 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".
- 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.
- 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.

Unless otherwise described above, these standards, amendments to standards and interpretations did not have a material impact on these consolidated financial statements.

(in millions of Russian Roubles)

(c) Restatement and reclassification of comparatives

Starting 1 January 2013 the Group made changes to the recognition and measurement of defined benefit pension expense and termination benefits and to the disclosures for employee benefits in accordance with revised IAS 19 "Employee Benefits".

Also presentation of comparative amounts in the consolidated statement of financial position has been reclassified to conform with the current period's presentation.

The effect on the consolidated financial statements at 31 December 2013 is presented below.

The consolidated financial statements at 31 December 2012 were not presented due to insignificant effect. In the consolidated statement of changes in equity retrospective application of the revised standard IAS 19 corrected opening balance of reserves and accumulated loss at 1 January 2012 in amount of RR 94 million and RR 3 million, respectively.

The effect of reclassification on the consolidated statement of financial position at 31 December 2013:

	As originally presented	Items	Reclassification	As adjusted
Non-current assets				
Advances for capital construction	10,700	2	(4,328)	6,372
Long-term financial assets	-	3	3,350	3,350
Trade and other receivables	704	1	80	784
Other non-current assets	4,286	1,3	898	5,184
Total assets	**338,956**		-	**338,956**
Total equity and liabilities	**338,956**		-	**338,956**

The following are main explanations of the corrections and reclassifications made:

Item 1 Loans issued were reclassified from other non-current assets to trade and other receivables.

Item 2 Advances paid for grid connection were reclassified from advances for capital construction to other non- current assets.

Item 3 Investments held-to-maturity and available-for-sale financial assets were reclassified from other non- current assets to respective non-current financial assets.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those investees, 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 on which control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

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. Non-controlling interests that are not present ownership interests are measured at fair value.

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.

(ii) Transfers of subsidiaries from parties under common control

Transfers of subsidiaries between parties under common control are accounted for using the predecessor basis of accounting method. Under this method the assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's carrying amounts. The financial statements incorporate the acquired entity's results from the date on which the transaction occurred. The corresponding figures of the previous year are not restated. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. 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 within equity.

(iii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(f) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise of cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Loans and receivables consist of financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group upon initial recognition designates at fair value through profit or loss.

Held-to-maturity investments. If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains or losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Share capital

Ordinary shares. Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury stock). When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(g) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the balance sheet date. Increase in the carrying amount of property, plant and equipment as a result of revaluation is credited directly to other comprehensive income under the heading reserve, unless the decrease of the reserve was previously recognised in profit or loss. Decrease in the carrying amount shall be debited to other comprehensive income to the extent of any credit balance existing in the revaluation reserve. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revaluated amount of the asset.

The tax effects from the revaluation of property, plant and equipment are recognised in other comprehensive income and accumulated in equity.

Cost of acquired assets includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs, and (c) 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.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other operating expenses" in profit or loss. The revaluation surplus is not transferred from reserve when the assets are disposed.

(ii) Reclassification to investment property

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent the gain reverses previous impairment loss on a specific property, with any remaining gain recognised in the revaluation reserve directly in other comprehensive income. Any loss is recognised in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss.

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

(iv) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of lease term. Depreciation of an asset begins when it is available for use.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

As part of revaluation at 31 December 2013 estimates in respect of useful lives of certain classes of property, plant and equipment were revised for the year 2014 and were as follows:

• Buildings and constructions	30-70 years
• Plant and equipment	25-40 years
• Transmission networks	30 years
• Other	5-25 years

(h) Intangible assets

(i) Goodwill

Goodwill is measured by deducting 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, bargain purchase") 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.

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.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of the software for the current and comparative periods equal to 7 years.

(i) Investment property

Investment property is property or construction in progress held or constructed either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Any change in fair value is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

When the carrying amount of property is to be recovered principally through a sale transaction rather than through continuing use the property is remeasured to fair value and reclassified as assets held for sale. Any gain or loss on the remeasurement recognised in profit or loss.

(j) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(l) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Impairment losses for available-for-sale financial assets 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 investments. 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 through profit or loss. 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.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). To calculate the recoverable amount in respect of a specific group of assets, the Group uses the fair value method, based on the possibility of alternative use. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in other comprehensive income if revaluation reserve existing to such assets, otherwise in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

(iii) Non-current assets held for sale

Non – current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. Immediately before classification as held-for-sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment loss is recognised in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

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.

(m) Employee benefits

(i) Defined contribution pension plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(ii) Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is 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, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in year in which they arise.

Current service cost, interest on employee benefit obligations, past service cost, effect of curtailment and settlement are recognised to profit or loss.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Russian government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in year in which they arise.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(v) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(o) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief operating decision-maker. The Chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors including Chief Executive Officer who makes strategic decisions.

(p) Revenues

(i) Goods sold

Revenues from sales of electricity and heat are recognised when electricity and heat are supplied to customers.

Revenue from the sale of goods other than electricity and heat is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(q) Government subsidies

Government subsidies are assistance by government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Company.

Government subsidies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the subsidy. Subsidies that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Government subsidies that compensate the Company for the cost of an asset are recognised in the statement of comprehensive income on a systematic basis over the useful life of the asset. Unconditional government subsidies are recognised on profit or loss when subsidy becomes receivable. Government subsidies for the compensation of the difference between tariffs set to the urban population and the tariffs of the Company are recognised as income and included in other operating income.

(r) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(s) Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(in millions of Russian Roubles)

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on certain financial assets. All borrowing costs are recognised in profit or loss using the effective interest method except for those which are capitalised.

Foreign currency gains and losses are reported on gross basis.

(t) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the consolidated statement of changes in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable the profit or loss, and differences relating to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(u) 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.

(v) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees. There are no dilutive potential ordinary shares as of 31 December 2014 and 31 December 2013.

Note 4. Goodwill

Movement in goodwill arising on acquisition of subsidiaries are:

	2014	2013
Carrying amount at 1 January	**2,059**	**-**
Acqusition of subsidiaries	-	2,059
Disposal of subsidiaries	(2,059)	
Carrying amount at 31 December	**-**	**2,059**

Goodwill arose in 2013 as a result of the acquisition of shares of LLC "Teploenergoremont" and LLC "Teploenergoremont-Moskva". In 2014 subsidiaries LLC "Teploenergoremont" and LLC "Teploenergoremont-Moskva" were disposed of (Note 9).

Note 5. Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk, and
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The General Director has overall responsibility for proper functioning of the Group's internal controls system. The Board of Directors establishes and oversights of the Group's risk management framework and control environment mitigating those risks. The Audit Committee as part of Board of Directors evaluates the internal controls system effectiveness. The Group's Audit Committee is assisted in its oversight role by the Department of Internal Audit, who oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Department of Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The risk management functions are performed by several departments of the Company. Credit risk is considered by the Department of Liquidity and Credit. Liquidity risk is addressed by the Efficiency and Control union. These departments are accountable to the Deputies of General Director who supervises and coordinates the work of the risk management system.

The Group's risk management policies are summarised in the Company's Regulations on Risk Management which are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The procedures carried out in relation to the Company's risk analysis include examination of the customers reliability, analysis of bank guarantees for prepayments given to suppliers, bank currency position analysis, sensitivity analysis of exchange and interest rates for borrowings, budget implementation analysis etc.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive internal control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Geographically credit risk is concentrated in the city of Moscow and Moscow Region as most of sales are made in this area. Creditworthiness of existing customers is periodically evaluated based on internal and external information regarding history of settlements with these customers. The Group constantly analyses accounts receivable turnover ratios, maturity dates and takes appropriate measures on collection of debts due. Approximately 90-95% of the customers are the clients of the Group for a period longer than 2-3 years.

There are standard contract terms for any customer purchasing energy under regulated contracts, the day-ahead market or the balancing market. Special conditions are envisaged by the Russian legislation on Power industry for some heat consumers such as state companies, housing organisations and entities, which may not be limited or refused energy supply because it can lead to casualties or other harmful aftermath (hospitals, schools etc.). Currently no upper limits for debt due from a single customer are established.

In monitoring customer credit risk, customers are grouped according to the accounts receivable type and maturity dates. Accounts receivable are divided into five major groups, which are current, overdue, long-term, doubtful and irrecoverable accounts receivable. As early as an account receivable is classified as current measures are taken on collection of debt due, which include oral and written notices, instituting a claim, putting in a late payment penalty etc.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have high credit rating provided by rating agencies, except for related parties. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The liquidity risk management is performed on three different levels. Long-term policies are incorporated in the overall financial model of the Company. Middle-term monitoring is fulfilled during the quarterly and monthly planning of the Group's budgets. Short-term actions include planning and control of daily cash receipts and payments of the Company.

Liquidity management system includes also drawing up monthly, quarterly and yearly cash budgets, comparing actual amounts to planned and explaining any discrepancies found.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currency in which these transactions primarily are denominated is Euro.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

To minimise currency risk the Group prepares budgets taking into account possible changes in exchange rates, creates special reserves to cover contingent expenses and losses.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

The Group constantly analyses dynamics of variable interest rates. To minimise interest rate risk the Group prepares budgets taking into account possible changes of interest rates creates special reserves to cover contingent expenses and losses. Currently the Group considers the possibility of hedging currency risks using corresponding derivatives in the future.

(e) Capital management

The Group's objectives when managing capital 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 and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating profit divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the reporting period.

Consistent with other companies of the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less cash. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus the net debt.

(in millions of Russian Roubles)

The gearing ratios at 31 December 2014 and at 31 December 2013 were as follows:

	31 December 2014	31 December 2013
Borrowings (Note 16)	(49,139)	(26,477)
Cash and cash equivalents (Note 10)	9,677	2,871
Net debt	**(39,462)**	**(23,606)**
Equity attributable to equity holders of the Group	(241,167)	(258,385)
Total capital	**(280,629)**	**(281,991)**
Gearing ratio	**14.06%**	**8.37%**

(i) Loans' covenants

In accordance with loan facilities the Group maintains an optimal capital structure by tracking certain requirements:

- the maximum level of Net financial Debt/EBITDA;
- minimum level of EBITDA/Interest expense, and
- minimum level of own paid tangible assets.

These ratios are included as covenants into loan agreements (Note 16). The Group is in compliance with externally imposed capital requirements.

(ii) Legislation requirements

The Group is subject to the following externally imposed capital requirements that have been established for joint stock companies by the legislation of Russian Federation:

- share capital cannot be lower than 1,000 minimum shares at the date of the company registration;
- if the share capital of the entity is greater than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets, and
- if the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

At 31 December 2014 the Group was in compliance with the above share capital requirements.

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 nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the year ended 31 December 2014 and 31 December 2013, or had significant balances outstanding at 31 December 2014 and at 31 December 2013 are detailed below. OJSC "Gazprom" is an ultimate parent company of OJSC "Mosenergo" during the current and prior reporting periods. The Russian Federation is the ultimate controlling party of the Group during the current and prior reporting periods.

(a) Transactions with Gazprom Group and its associates

The Group has the following turnover and balances outstanding with Gazprom Group and its associates, including OJSC "MOEK", which is a part of the Gazprom Group since September 2013. Prior to the above date OJSC "MOEK" was under the control of the Russian Federation government.

(in millions of Russian Roubles)

Revenue

	Year ended 31 December 2014	Year ended 31 December 2013
Heat	41,938	13,316
Electricity	1,450	1,425
Other revenue	1,988	488
Total	**45,376**	**15,229**

Other operating income

	Year ended 31 December 2014	Year ended 31 December 2013
Loss on disposal of assets held for sale	(120)	-
Total	**(120)**	-

Expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Fuel expenses	(59,303)	(54,129)
Heat transmission	(7,310)	(2,476)
Rent payments	(488)	(355)
Maintenance and repairs expenses	(486)	(2)
Purchased heat and electricity	(246)	(44)
Insurance expenses	(209)	(176)
Cleaning services	(200)	(188)
Voluntary medical insurance expenses	(123)	(97)
Legal, consulting and data processing services	(262)	(258)
Other expenses	(16)	(45)
Total	**(68,643)**	**(57,770)**

Rent payments for the year ended 31 December 2014 include payments in amount of RR 264 million to LLC "Neftyanoi dom", an associate of OJSC "Gazprom" (for the year ended 31 December 2013: RR 294 million).

Financial income and expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Financial income	217	76
Financial expense	(154)	(137)
Net financial (expense)/ income	**63**	**(61)**

Financial income for the year ended 31 December 2014 include income associated with transactions with OJSC "Gazprombank", an associate of OJSC "Gazprom", in amount of RR 217 million (for the year ended 31 December 2013: RR 76 million).

Financial expenses for the year ended 31 December 2014 include expenses associated with transactions with OJSC "Gazprombank", an associate of OJSC "Gazprom", in amount of RR 14 million (for the year ended 31 December 2013 RR 11 million).

(in millions of Russian Roubles)

Outstanding balance

	Outstanding balance at 31 December 2014	Outstanding balance at 31 December 2013
Cash and cash equivalents	220	69
Investments	478	-
Trade and other receivables	26,427	15,463
Advances for acquisition of property, plant and equipment	1,667	4,751
Total assets	**28,792**	**20,283**
Trade and other payables	(13,554)	(5,950)
Total liabilities	**(13,554)**	**(5,950)**

Trade and other receivables include an outstanding balance with OJSC "MOEK", subsidiary of OJSC "Gazprom", in amount of RR 23,760 million 31 December 2014 (at 31 December 2013: RR 15,267 million). There was no provision for impairment of trade and other receivables at 31 December 2014 and 31 December 2013, respectively.

Advances for acquisition of property, plant and equipment include an outstanding balance with OJSC "Mehregionenergostroy", a subsidiary of OJSC "Gazprom", in amount of RR 1,595 million at 31 December 2014 (at 31 December 2013: RR 4,613 million).

Cash and cash equivalents at 31 December 2014 and 31 December 2013 are from OJSC "Gazprombank", an associate of OJSC "Gazprom".

Trade and other payables include outstanding balances with OJSC "MOEK", LLC "Mehregionenergostroy" and LLC "Gazprom mezhregiongaz Moskva", subsidiaries of OJSC "Gazprom", in amount of RR 8,711 million, RR 2,909 million and RR 1 292 million, respectively, at 31 December 2014 (at 31 December 2013: RR 1,316 million, RR 3,477 million, RR 303 million, respectively).

During the year the Company purchased heating stations from OJSC "MOEK". This transaction was treated as transaction under common control, was recognised at the predecessor entity's carrying amounts and equaled to RR 4,097 million. The difference between the total consideration given and the carrying amounts of the assets was recognised in equity.

Borrowings

	Amount loaned for the year ended 31 December 2014	Amount loaned for the year ended 31 December 2013	Outstanding balance at 31 December 2014	Outstanding balance at 31 December 2013
Non-current borrowings	-	-	1,700	1,700
Current borrowings	10,865	7,550	100	-
Total borrowings	**10,865**	**7,550**	**1,800**	**1,700**

(b) Transactions with key management

Key management personnel (the members of the Board of Directors and Management Committee of the Group) received the following remuneration, which is included in personnel expenses:

Expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Wages and salaries	(158)	(135)
Social taxes and contributions	(14)	(12)
Termination benefits	(7)	-
Total	**(179)**	**(147)**

Outstanding balance

There are no outstanding balances at 31 December 2014 and at 31 December 2013 as for transactions with key management.

(c) Transactions with other state-controlled entities

(in millions of Russian Roubles)

Information below excludes transactions and outstanding balances with Gazprom Group and its associates as disclosed in Note 6(a).

In the normal course of business the Group enters into transactions with other entities, which are under control of the Russian Federation government. OJSC "MOEK" became part of the of Gazprom Group in September 2013, prior to that date it was under the control of government of the Russian Federation.

Revenue

	Year ended 31 December 2014	Year ended 31 December 2013
Electricity	77,423	86,291
Heat	8,240	34,193
Other revenue	288	1,116
Total	**85,951**	**121,600**

Expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Purchased heat and electricity	(8,115)	(4,988)
Electricity market administration fees	(1,406)	(1,338)
Water usage expenses	(1,109)	(1,135)
Rent payments	(530)	(506)
Security services	(381)	(365)
Fuel expenses	(115)	(120)
Legal, consulting and data processing services	(61)	(73)
Communication services	(39)	(50)
Fire prevention services	(29)	(34)
Heat transmission	(20)	(5,165)
Other expenses	(82)	(97)
Total	**(11,887)**	**(13,871)**

Financial income and expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Financial income	557	158
Financial expenses	(2,212)	-
Net financial (expenses)/income	**(1,655)**	**158**

Outstanding balance

	Outstanding balance at 31 December 2014	Outstanding balance at 31 December 2013
Trade and other receivables	9,784	8,742
Cash and cash equivalents	6,315	178
Investments	2,221	-
Grid connection	9,025	4,328
Other non-current assets	558	523
Total assets	**27,903**	**13,771**
Trade and other payables	(1,068)	(2,215)
Total liabilities	**(1,068)**	**(2,215)**

The Group is a party of Capacity Supply Contracts, Note 33.

(in millions of Russian Roubles)

Borrowings

	Amount loaned for the year ended 31 December 2014	Amount loaned for the year ended 31 December 2013	Outstanding balance at 31 December 2014	Outstanding balance at 31 December 2013
Non-current borrowings	25,450	-	31,750	7,500
Total borrowings	**25,450**	**-**	**31,750**	**7,500**

Note 7. Property, plant and equipment

Appraised value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2013	**104,103**	**77,669**	**11,668**	**8,463**	**41,038**	**242,941**
Acquisition of subsidiary	-	197	-	-	1	**198**
Additions	1	50	117	5	38,928	**39,101**
Disposals	(170)	(99)	(39)	(117)	(589)	**(1,014)**
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	(5)	(4)	-	(13)	-	**(22)**
Transfers	391	4 031	636	448	(5,506)	**-**
Transfer from assets classified as held for sale	1,000	-	-	-	-	**1,000**
Transfer to assets classified as held for sale	(22)	(8)	-	-	-	**(30)**
Elimination of accumulated depreciation	(31,409)	(21,680)	(6,618)	(5,674)	(589)	**(65,970)**
Revaluation	20,733	30,880	3,546	3,114	(711)	**57,562**
Balance at 31 December 2013	**94,622**	**91,036**	**9,310**	**6,226**	**72,572**	**273,766**
Balance at 1 January 2014	**94,622**	**91,036**	**9,310**	**6,226**	**72,572**	**273,766**
Additions	3,137	387	103	926	25,062	**29,615**
Disposals	(183)	(109)	(316)	(103)	(41)	**(752)**
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	(28)	(115)	(389)	(20)	-	**(552)**
Transfers	15,989	22,355	654	4,140	(43,138)	**-**
Transfer from assets classified as held for sale	12	-	-	-	-	**12**
Transfer to assets classified as held for sale	(417)	(240)	(3,355)	(130)	(714)	**(4,856)**
Transfer to investment property	(6)	-	-	-	-	**(6)**
Balance at 31 December 2014	**113,126**	**113,314**	**6,007**	**11,039**	**53,741**	**297,227**

(in millions of Russian Roubles)

Accumulated depreciation (including impairment)

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2013	**(25,494)**	**(16,914)**	**(5,233)**	**(4,324)**	**(589)**	**(52,554)**
Acquisition of subsidiary	-	(54)	-	-	-	**(54)**
Depreciation charge	(6,332)	(4,764)	(1,415)	(1,463)	-	**(13,974)**
Disposals	50	48	30	100	-	**228**
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	5	4	-	13	-	**22**
Reversal of impairment	362	-	-	-	-	**362**
Elimination of accumulated depreciation	31,409	21,680	6,618	5,674	589	**65,970**
Balance at 31 December 2013	-	-	-	-	-	-
Balance at 1 January 2014	-	-	-	-	-	-
Depreciation charge	(4,932)	(8,601)	(674)	(1,301)	-	**(15,508)**
Disposals	13	24	18	18		**73**
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	28	115	389	20	-	**552**
Impairment loss	(4,571)	(4,917)	(3,051)	(347)	(6,171)	**(19,057)**
Balance at 31 December 2014	**(9,462)**	**(13,379)**	**(3,318)**	**(1,610)**	**(6,171)**	**(33,940)**

Net book value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2013	78,609	60,755	6,435	4,139	40,449	**190,387**
At 31 December 2013	94,622	91,036	9,310	6,226	72,572	**273,766**
At 31 December 2014	116,601	87,034	2,689	9,393	47,570	**263,287**

Net book value had no revaluation taken place

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2013	34,931	48,360	2,053	3,517	33,284	**122,145**
At 31 December 2013	32,657	47,592	1,785	2,834	69,364	**154,232**
At 31 December 2014	42,919	65,249	969	10,445	47,226	**166,808**

Borrowing costs of RR 3,831 million and RR 1,125 million for the year ended 31 December 2014 and 31 December 2013, respectively, are capitalised in additions above. Capitalisation rates of 10.01% and 7.43% for year ended 31 December 2014 and 31 December 2013, were used to determine the amount of borrowing costs eligible for capitalization. The capitalisation rate represented the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year.

There were no properties pledged as security for the Company's bank loans at 31 December 2014 and at 31 December 2013.

(a) Revaluation

The Group changed its accounting policy in respect of property, plant and equipment measurement from a cost model to a revaluation model starting from 1 January 2007 in order to provide users of the financial statements with more reliable information about the value of the Group's property, plant and equipment.

(in millions of Russian Roubles)

No revaluations performed of 31 December 2014 as the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The fair value measurement for property, plant and equipment was categorised as a Level 3 fair value based on inputs to the valuation technique used (Note 2).

In 2013 the Group contracted an independent appraiser to estimate the fair value of the Group's property, plant and equipment and investment property at 31 December 2013. The fair value of property, plant and equipment was determined to be RR 273,766 million. As a result of revaluation, the Group's equity increased by RR 46,771 million, comprising net increase in the carrying value of property, plant and equipment of RR 58,464 million and the related deferred tax of RR 11,693 million.

Net increase in the carrying value of property, plant and equipment amounted to RR 57,562 million consisted of increase in amount of RR 67,597 million related to revaluation recognized within the equity and decrease of RR 10,035 million related to impairment charge out of which RR 9,133 million were recognized within the equity and RR 902 million were recognized in the consolidated income statement.

(b) Impairment

At 31 December 2014 the Group performed impairment test for each cash generating units (CGU) to which the individual assets are allocated, power plants. As result, during 2014 impairment loss in amount of RR 6,088 million was recognized within profit and loss and in amount of RR 9,424 million within equity.

The economic obsolescence was determined for each of 18 CGU.

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow forecasts based on budgets covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates. The growth rates do not exceed the long-term average growth rate for the electric power sector of the economy. The volume of electricity is generated from facilities for which gas is used as main type of fuel; hence, increase in gas price results in increase in electricity price.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

- gas price estimation was based on tariffs approved by Federal Tariff Service (FTS) and growth rates forecasted by IHS Global Insight. If estimated price had been increased by 1% each year and as result electricity price had been increased in the same percentage, the Group would need to reduce the carrying value of property, plant and equipment by RR 18,426 million;
- production volume estimation was based on the forecasts included in industry reports. If estimated volumes had been decreased by 1%, the Group would need to reduce the carrying value of property, plant and equipment by RR 15,725 million;
- the discount rate used are pre-tax and reflect all specific risks. The differentiating rate was used in discounting of cash flows: for the first two forecasting periods discount rate was assumed to be 15.64% which reflects current risks, for the subsequent period discount rate was assumed to be 12.53%. If the estimated discount rates applied to the discounted cash flows had been higher by 1%, the Group would need to reduce the carrying value of property, plant and equipment by RR 23,663 million

Other impairment amounted to RR 3,545 was recognised in the amount of RR 2,614 million within the equity and RR 931 million within the profit and loss. This impairment was mainly caused by the classification of transmission networks as assets held for sale at the lower of its carrying amount and fair value less costs to sell (Note 9).

(c) Leased assets

The Group leases property, plant and equipment under a number of finance lease agreements. All leases provide the Group with the option to purchase the buildings and equipment at a beneficial price. The leased plant and equipment secures lease obligations (Note 31). At 31 December 2014 the net carrying amount of leased plant and equipment was RR 635 million (at 31 December 2013: RR 49 million).

Note 8. Investment property

	2014	2013
Balance at 1 January	**800**	**792**
Transfer from/(to) property, plant and equipment	6	(1)
Disposals	(1)	9
Balance at 31 December	**805**	**800**

(in millions of Russian Roubles)

For the year ended 31 December 2013 the fair value of investment property was determined by an independent appraiser and equaled to RR 800 million. The fair value of the Group's investment property at 31 December 2014 was determined to be RR 805 million based on the market trends for the year 2014.

The fair value measurement for investment property was categorised as a Level 3 fair value based on inputs to the valuation technique used (Note 2).

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
Market approach	Market prices for identical assets

Rental income for the year ended 31 December 2014 and 31 December 2013 amounted to RR 150 million and RR 106 million, was recognised in profit and loss in other revenue.

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	31 December 2014	31 December 2013
Less than one year	190	98
Between one and five years	-	-
More than five years	-	-
Total	**190**	**98**

Note 9. Disposal group classified as held for sale

	31 December 2014	31 December 2013
Assets classified as held for sale		
Property, plant and equipment	107	530
Investment property	5	33
Assets of disposal group held for sale		
Trade and other receivables	897	-
Property, plant and equipment	834	-
Advances for acquisition of property, plant and equipment	164	-
Cash and cash equivalents	136	-
Inventories	42	-
Taxes other than income tax prepaid	20	-
Other non-current assets	3	-
Total	**2,208**	**563**

	31 December 2014	31 December 2013
Liabilities classified as held for sale		
Deferred tax liabilities	(127)	70
Liabilities directly associated with disposal group classified as held for sale		
Trade and other payables	853	-
Borrowings	289	-
Total	**1,015**	**70**

At 31 December 2014 the Group is in the process of disposing of non-core assets in the amount of RR 2,208 million and the corresponding liabilities in the amount of RR 1,015 million (at 31 December 2013: RR 563 million and RR 70 million, respectively). The sale is expected during 2015.

During the year ended 31 December 2014 the Group recognised impairment loss in amount of RR 137 million within the profit and loss as result of subsequent measurement of assets held for sale (for the year ended 31 December 2013: RR 26 million).

(in millions of Russian Roubles)

During the year in line with its asset structuring process part of transmission networks were classified as assets held for sale in amount of RR 3,272 million. Disposal was completed in September 2014.

The fair value measurement for assets and disposal group classified as held for sale was categorised as a Level 3 fair value based on inputs to the valuation technique used (Note 2).

The following table shows the valuation technique used in measuring the fair value, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
Cost approach	Replacement cost and index method
Discounted Cash Flows	EBITDA
	Risk-adjusted discount rate

(a) Disposal group

In October 2014 the Group sold "TER Group". Disposed Group was classified as a disposal group and its assets and liabilities were accordingly reclassified in the consolidated statement of financial position. The details of the disposed assets and liabilities and disposal consideration are as follows:

	30 September 2014
Non-current assets	2,312
Current assets	2,575
Non-current liabilities	(2,255)
Current liabilities	(363)
Net assets of subsidiary, including attributed goodwill	**2,269**
Non-controlling interest disposed	(94)
Carrying amount of disposed net assets	**2,175**
Loss on disposal of subsidiaries (Note 26)	(286)
Consideration for disposal of the subsidiaries	**1,889**
Consideration receivable	2,439
Cash and cash equivalents in disposed subsidiaries	(586)
Proceeds from disposal of subsidiary, net of cash disposed	**(586)**

(b) Disposal of subsidiary

In October 2014 the Group sold subsidiary LLC "GES-2", with net assets in amount of RR 221 million for the cash consideration RR 1,744 million. Gain on disposal of subsidiary in amount of RR 1,489 was recognised in profit or loss. Disposed subsidiary was classified as a disposal group and its assets and liabilities were accordingly reclassified in the consolidated statement of financial position.

Note 10. Cash and cash equivalents

	31 December 2014	31 December 2013
Call deposits	8,856	929
Bank balances	821	1,942
Total	**9,677**	**2,871**

Call deposits are classified as cash equivalents when their original maturity is three month or less.

(in millions of Russian Roubles)

Note 11. Financial assets

	31 December 2014	31 December 2013
Investments held-to-maturity		
Deposits	2,700	-
Promissory notes	520	541
Short-term financial assets	**3,220**	**541**
Available-for-sale financial assets	3,159	3,159
Investments held-to-maturity		
Promissory notes	226	191
Long-term financial assets	**3,385**	**3,350**

The Group's exposure to credit, currency and interest risks related to investments is disclosed in Note 31.

(a) Available-for-sale financial assets

Available-for-sale financial assets include equity instrument of LLC "Gazeks-Management" in the total amount of RR 3,149 million at 31 December 2014 that was received in settlement for accounts receivable in October 2013 (31 December 2013: RR 3,149 million).

Management assessed the level of the Company's influence on LLC "Gazeks-Management", ans concluded that despite holding 33,3% of shares the Company has no significant influence due to the following factors:

- OJSC "Mosenergo" does not have any representative in the LLC "Gazeks-Management" Board of Directors and does not have a right to appoint them;
- OJSC "Mosenergo" does not participate in LLC "Gazeks-Management" policy-making decisions and does not have a right to participate in such policy-making decisions;
- There are no material transactions between the Group and LLC "Gazeks-Management", there is no interchange of personnel between the two companies and there is no sharing of technical information between the companies.

Note 12. Trade and other receivables

	31 December 2014	31 December 2013
Trade receivables	40,691	31,488
Loans to organizations	1,878	80
Other receivables	1,263	772
Financial assets	**43,832**	**32,340**
Advances to suppliers and prepaid expenses	1,069	1,560
VAT recoverable	225	429
Taxes other than income tax prepaid	54	794
Other receivables	346	350
Total	**45,526**	**35,473**
Non-current assets	6,588	784
Current assets	38,938	34,689
Total	**45,526**	**35,473**

Trade receivables balances are recorded net of provision for impairment in amount of RR 6,830 million and RR 5,866 million at 31 December 2014 and at 31 December 2013, respectively.

Other receivables balances are recorded net of provision for impairment in amount of RR 62 million and RR 72 million at 31 December 2014 and at 31 December 2013, respectively.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 31.

Note 13. Inventories

(in millions of Russian Roubles)

	31 December 2014	31 December 2013
Fuel	4,248	4,192
Raw materials and consumables	3,388	2,944
Total	**7,636**	**7,136**

Raw materials and consumables are stated net of write-down amounting to RR 1 million and RR 8 million at 31 December 2014 and at 31 December 2013, respectively. The write-downs and reversals are included in other materials expenses.

Inventories held by the Group are not subject to any retention of title clauses.

Note 14. Other assets

	31 December 2014	31 December 2013
Other non-current assets		
Grid connection	8,828	4,328
Constructed assets financed by the government of Moscow city	523	523
Intangible assets	154	323
Other assets	35	10
Total	**9,540**	**5,184**
Other current assets		
Grid connection	197	-
VAT recovered from advances for capital construction	42	42
Other assets	1	415
Total	**240**	**457**

(a) Constructed assets

Since June 2005 the Group was engaged in the construction of the power plant to be jointly used by the Group and the government of Moscow city. Construction of the distribution unit is jointly financed and shall be distributed between the parties involved upon completion. Included in other payables and accrued expenses is a liability to the government of Moscow city amounting to RR 523 million.

Note 15. Equity

(a) Share capital and share premium

At 31 December 2014 the authorised share capital comprised 39,749,359,700 ordinary shares (at 31 December 2013: 39,749,359,700) of RR 1.00 par value each. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

Share premium amounted to RR 49,213 million represents excess of the cash proceeds from the issue of share capital over its par value net of the transaction costs amounted to RR 7 million.

(b) Treasury stock

The treasury stock at 31 December 2014 and at 31 December 2013 amounted to RR 871 million.

No decisions regarding further operations with treasury stock were made by the Company's management.

(c) Reserves

At 31 December 2014 reserves composed of the revaluation reserve relates to the revaluation of property, plant and equipment in the amount of RR 121,209 million (at 31 December 2013: RR 130,840 million) and reserve for post employee benefit obligation remeasurement in amount of RR (5) million (at 31 December 2013: RR (61) million).

(d) Dividends

In 4 June 2014 the general shareholders meeting of OJSC "Mosenergo" made the decision to pay dividends for the result of financial year 2013. The amount of declared dividends on the issuer shares was RR 0.04 per share, total amount of dividends is RR 1,584 million.

(in millions of Russian Roubles)

In 5 June 2013 the general shareholders meeting of OJSC "Mosenergo" made the decision to pay dividends for the result of financial year 2012. The amount of declared dividends on the issuer shares was RR 0.03 per share, total amount of dividends is RR 1,188 million.

Note 16. Borrowings

The note provides information about the contractual terms of the Group's interest-bearing borrowings, which are measured at amortised cost.

	31 December 2014	31 December 2013
Non-current borrowings		
Unsecured bank loans	45,510	17,397
Unsecured bond issues	105	105
Other loans	1,700	1,700
Total	**47,315**	**19,202**
Current borrowings and current portion of non-current borrowings		
Current portion of unsecured bond issues	-	5,000
Current portion of unsecured bank loans	1,824	2,275
Total	**1,824**	**7,275**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding liabilities are as follows:

	Currency	Nominal interest rate	Year of maturity	31 December 2014 Face value	31 December 2014 Carrying amount	31 December 2013 Face value	31 December 2013 Carrying amount
Unsecured bank loans				**48,052**	**47,334**	**20,541**	**19,672**
OJSC "Sberbank Rossii"	Russian Roubles	8.14%	2018	23,500	23,500	3,750	3,750
OJSC "VTB"	Russian Roubles	8.14%	2018	8,250	8,250	3,750	3,750
BNP Paribas	EURO	EURIBOR 6M+2.00%	2022	8,717	8,276	6,459	5,921
Credit Agricole CIB Deutschland	EURO	EURIBOR 6M+1.95%	2024	7,585	7,308	5,508	5,177
OJSC "TKB"	Russian Roubles	12.5%	2014	-	-	844	844
OJSC "AB Rossia"	Russian Roubles	9.85%	2014	-	-	200	200
OJSC "Promsvazbank"	Russian Roubles	11.1%	2014	-	-	30	30
Unsecured bond issues				**105**	**105**	**5,105**	**5,105**
Unsecured bond issue № 3	Russian Roubles	8.7%	2014	-	-	5,000	5,000
Unsecured bond issue № 2	Russian Roubles	1.00%	2016	105	105	105	105
Other loans				**1,700**	**1,700**	**1,700**	**1,700**
OJSC "OGK-2"	Russian Roubles	7.25%	2022	1,048	1,048	1,048	1,048
LLC "Gazprom energoholding"	Russian Roubles	7.25%	2021	652	652	652	652
Total				**49,857**	**49,139**	**27,346**	**26,477**

Note 17. Employee benefits

The Group sponsors a post-employment and other long-term benefit program that covers the majority of the Group's employees. The plan principally consists of a defined contribution plan enabling employees to contribute a portion of their salary to the plan and equivalent portion of contribution from the Group. The plan is administrated by non-state pension fund.

(in millions of Russian Roubles)

To be entitled for participation in this defined contribution pension plan an employee should meet certain age and past service requirements. Maximum possible amount of employer's contribution is limited and depends on employee's position in the Group.

In addition to defined contribution pension plan the Group maintains several plans of a defined benefit nature which are provided in accordance with collective bargaining agreement and other documents. The main benefits provided under this agreement are a lump sum upon retirement and material assistance.

A new collective bargaining agreement came into force from 1 January 2014. There were no significant changes in benefits provided via the agreement compared to the version effective in the prior year.

Compensations for redundancies paid by the Group for the year ended 31 December 2014 and 31 December 2013 amounted to RR 112 million and 54 million, respectively, were recognised in profit or loss in personnel expenses.

(a) Movement in the present value of the defined benefit obligation

	2014			2013		
	Post-emloyment benefits	Other long-term benefits	Total	Post-emloyment benefits	Other long-term benefits	Total
Opening defined benefit obligation as at 1 January	305	69	374	328	36	364
Current service cost	10	13	23	28	7	35
Interest on employee benefit obligations	22	5	27	22	2	24
Past service cost	-	30	30	-	-	-
Remeasurements:						
Actuarial (gains)/losses - Experience	(6)	(7)	(13)	(36)	12	(24)
Actuarial gains arising from changes in financial assumptions	(67)	(12)	(79)	(23)	(5)	(28)
Actuarial losses arising from changes in demographic assumptions	3	8	11	15	7	22
Losses/(gains) on curtailments	(8)	(5)	(13)	-	-	-
Increase in liabilities as a result of (acquisitions)/disposals	(8)	(20)	(28)	8	19	27
Benefits paid	(50)	(8)	(58)	(37)	(9)	(46)
Closing defined benefit obligation as at 31 December	**201**	**73**	**274**	**305**	**69**	**374**

(b) Amounts recognised in profit and loss in respect of these defined benefit plans are as follows

	Year ended 31 December 2014			Year ended 31 December 2013		
	Post-emoyment benefits	Other long-term benefits	Total	Post-emoyment benefits	Other long-term benefits	Total
Service cost:						
Current service cost	10	13	23	28	7	35
Past service cost	-	30	30	-	-	-
Increase in liabilities as a result of curtailments	(8)	(5)	(13)	-	-	-
Interest on employee benefit obligations	22	5	27	22	2	24
Remeasurements:						
Actuarial (gains)/losses - Experience	-	(7)	(7)	-	12	12
Actuarial losses arising from changes in assumptions	-	(4)	(4)	-	2	2
Components of defined benefit costs recorded in profit or loss	**24**	**32**	**56**	**50**	**23**	**73**

(in millions of Russian Roubles)

(c) Amounts recognised in other comprehensive income in respect of these defined benefit plans

	Year ended 31 December 2014			Year ended 31 December 2013		
	Post-emoyment benefits	Other long-term benefits	Total	Post-emoyment benefits	Other long-term benefits	Total
Remeasurement on the net defined benefit liability						
Remeasurement losses/(gains) - Experience	(6)	-	(6)	(36)	-	(36)
Remeasurement gains - changes in assumptions	(64)	-	(64)	(8)	-	(8)
Components of defined benefit costs recorded in other comprehensive income	**(70)**	-	**(70)**	**(44)**	-	**(44)**

(d) The amount included in the consolidated statement of financial position

	31 December 2014			31 December 2013		
	Post-emoyment benefits	Other long-term benefits	Total	Post-emoyment benefits	Other long-term benefits	Total
Present value of defined benefit obligation	201	73	274	305	69	374
Net liability arising from defined benefit obligation	**201**	**73**	**274**	**305**	**69**	**374**

(e) Movements in net liability in the current period were as follows

	31 December 2014			31 December 2013		
	Post-emoyment benefits	Other long-term benefits	Total	Post-emoyment benefits	Other long-term benefits	Total
Opening net liability arising from defined benefit obligation	305	69	**374**	328	36	364
Components of defined benefit costs recorded in profit or loss	24	32	**56**	50	23	73
Components of defined benefit costs recorded in other comprehensive income	(70)	-	**(70)**	(44)	-	(44)
Contributions from the employer	(50)	(8)	**(58)**	(37)	(9)	(46)
(Increase)/decrease in liabilities as a result of (acquisitions)/disposals	(8)	(20)	**(28)**	8	19	27
Closing net liability arising from defined benefit obligation	**201**	**73**	**274**	**305**	**69**	**374**

(f) Actuarial assumptions

Principal actuarial assumptions (expressed as weighted averages) are as follows:

(i) Financial assumptions

	31 December 2014	31 December 2013
Discount rate	13.0%	7.9%
Inflation rate	7.0%	5.0%
Salaries increase	9.0%	7.0%
Duration of liabilities, years	5.3	5.3
Social contributions	Calculated for each participant based on limits and rates stated in social contribution rule	Calculated for each participant based on limits and rates stated in social contribution rule

(ii) Demographic assumptions

Withdrawal rates assumption is as follows: expected staff turnover rates vary depending on employee past service in range from 25% p.a. for employees with 1 year of past service to around 6% p.a. for those who have 20 or more years of service. Compared to previous period the changes in the assumption are insignificant.

Retirement ages assumption is as follows: average retirement ages are 62,5 years for men and 59 years for women. Very similar retirement ages were used in previous period.

(in millions of Russian Roubles)

Mortality table: Russian urban population mortality table 2011

(g) Sensitivity analysis of defined benefit obligation to significant actuarial assumptions

	31 December 2013			
	Change in assumption	Post-emoyment benefits	Other long-term benefits	Total
Discount rate	+ / - 1% pa	8	4	12
Inflation rate	+ / - 1% pa	9	4	13
Salaries increase	+ / - 1% pa	-	-	-
Staff turnover	+ / - 3% pa	10	9	19
Mortality	+ / - 10% pa	5	1	6

Note 18. Trade and other payables

	31 December 2014	31 December 2013
Trade payables	6,201	4,519
Other payables	13,443	6,527
Financial liabilities	**19,644**	**11,046**
Advances received	1,680	1,745
Other payable	1,157	1,416
Total	**22,481**	**14,207**
Non-current liabilities	4,719	919
Current liabilities	17,762	13,288
Total	**22,481**	**14,207**

Other payables as part of financial liabilities include accounts payable for acquisition of property, plant and equipment amounting to RR 9,412 million at 31 December 2014 (at 31 December 2013: RR 5,544 million).

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 31.

Note 19. Other taxes payable

	31 December 2014	31 December 2013
VAT payable	490	398
Property tax payable	363	173
Social contributions payable	245	252
Other taxes payable	10	38
Total	**1,108**	**861**

Note 20. Provisions

	2014	2013
Balance at 1 January	50	67
Provisions made during the year	260	75
Provisions used during the year	(62)	(45)
Provisions recovered during the year	(61)	(47)
Balance at 31 December	**187**	**50**

The legal provision balance was made by the Group in amount of RR 187 million at 31 December 2014 (at 31 December 2013: RR 50 million). The majority of this balance was made in amount of RR 109 million in respect of the claims from CJSC "TKS", RR 37 million in respect of the claims from LLC "Energogenerstsia" and RR 27 million in respect of the claims from CJSC "DZhKHiB" (at 31 December 2013: RR 37 million from OJSC "MOEK").

Note 21. Revenue

(in millions of Russian Roubles)

	Year ended 31 December 2014	Year ended 31 December 2013
Electricity	92,166	91,324
Heat	65,460	61,154
Other revenue	3,806	3,454
Total	**161,432**	**155,932**

Other revenue relates to rent, water usage and repair and maintenance services provided by the Group.

Approximately 3% and 4% of sales of electricity for the year ended 31 December 2014 and 31 December 2013, respectively, relates to resale of purchased electricity on the wholesale market OREM.

Note 22. Cost of materials

	Year ended 31 December 2014	Year ended 31 December 2013
Fuel expenses	95,656	89,443
Purchased heat and electricity	8,627	9,369
Water usage expenses	1,161	1,182
Other materials expenses	734	617
Total	**106,178**	**100,611**

Electricity is purchased mainly on the wholesale electricity market.

Note 23. Other external supplies

	Year ended 31 December 2014	Year ended 31 December 2013
Electricity market administration fees	1,406	1,343
Security services	576	505
Desalted water supply	398	1,079
Transport services	357	425
Cleaning services	342	311
Communication services	116	95
Certification and testing services	107	138
Fire prevention services	34	40
Other services	203	165
Total	**3,539**	**4,101**

Electricity market administration fees include payments to OJSC "Administrator torgovoi sistemy" and CJSC "Centr finansovyh raschetov" for arrangement of settlements between parties on electricity market and payments to JSC "SO UES" for regulation of generating assets operation of the Group.

Note 24. Personnel expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Wages and salaries	7,745	7,319
Social contributions	1,872	1,700
Voluntary medical insurance expenses	123	97
Catering	93	93
Personnel training expenses	60	102
Past service cost	30	-
Current service cost	23	35

(in millions of Russian Roubles)

	Year ended 31 December 2014	Year ended 31 December 2013
Net actuarial (gains)/losses recognised in period	(11)	14
Total	**9,935**	**9,360**

The Group head count totaled 12,170 and 9,273 at 31 December 2014 and at 31 December 2013, respectively.

Note 25. Other operating expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Trade and other receivables impairment loss recognized during the year and derecognition	2,001	2,504
Rent payments	1,197	891
Legal, consulting and data processing services	725	946
Cession agreements	567	80
Software expenses	274	218
Loss on disposal of property, plant and equipment	304	111
Insurance expenses	209	176
Impairment loss on assets classified as held for sale	137	26
Loss on disposal of materials	81	152
Environmental payments	79	75
Safety arrangement and precautions	54	58
Bank services	13	20
Other miscellaneous	213	139
Total	**5,854**	**5,396**

Note 26. Other operating income

	Year ended 31 December 2014	Year ended 31 December 2013
Gain from disposal of subsidiaries	1,203	-
Subsidies on the difference in tariffs for sales to the urban population	524	614
Fines and penalties business contracts	423	352
Gain/(loss) from disposal of assets classified as held for sale	218	(85)
Dividend income	91	-
Gains on curtailments	13	-
Change in fair value of investment property	-	9
Other miscellaneous	143	125
Total	**2,615**	**1,015**

Reimbursement from government of Moscow city represents cash paid to the Group to compensate the difference between tariffs set to the urban population and the tariffs of the Group.

Note 27. Financial income and expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Financial income		
Interest income on bank deposits	868	466
Other interest income	219	148
Total	**1,087**	**614**
Financial expenses		
Foreign exchange loss	(6,309)	(1,206)
Interest expenses on borrowings	(3,223)	(1,128)

(in millions of Russian Roubles)

	Year ended 31 December 2014	Year ended 31 December 2013
Lease expenses	(193)	(17)
Interest on employee benefit obligations	(27)	(24)
Other interest expenses	(41)	(33)
Total	**(9,793)**	**(2,408)**
Less finance costs capitalised on qualifying assets (Note 7)	3,831	1,125
Net financial expenses recognised in profit or loss	**(5,962)**	**(1,283)**

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	1,087	614
Interest expenses	(275)	(53)
Net interest	**812**	**561**

Net interest result by categories of assets and liabilities

	Year ended 31 December 2014	Year ended 31 December 2013
Cash and cash equivalents	842	587
Investments held-to-maturity	245	27
Liabilities carried at amortised cost	(275)	(53)
Total	**812**	**561**

Note 28. Income tax

(a) Income tax

The applicable tax rate of the Group is the income tax rate of 20% (for the year ended 31 December 2013: 20%).

	Year ended 31 December 2014	Year ended 31 December 2013
Current tax expense		
Current period	(2,904)	(3,115)
Over provided in prior periods	-	1,315
Deferred tax expense		
Origination and reversal of temporary differences	3,315	92
Unrecognised tax loss carry forwards for the year	153	-
Income tax benefit /(expense)	**564**	**(1,708)**

Reconciliation of effective tax rate is as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
(Loss)/profit before income tax	(3,304)	9,168
Income tax at applicable tax rate	661	(1,834)
Non-deductible / non-taxable items	(97)	(1,189)
Over provided in prior periods	-	1,315
Income tax benefit /(expense)	**564**	**(1,708)**

(b) Tax effects of components of other comprehensive income

	Year ended 31 December 2014	Year ended 31 December 2013

	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Impairment /(reversal of impairment) on property, plant and equipment	(12,038)	2,407	(9,631)	362	(72)	290
Remeasurement of post employee benefit obligation	70	(14)	56	44	(9)	35
Effect of aquistions under common control	(3,859)	772	(3,087)	-	-	-
Revaluation of property, plant and equipment	-	-	-	58,464	(11,693)	46,771
Total	**(15,827)**	**3,165**	**(12,662)**	**58,870**	**(11,774)**	**47,096**

(c) Deferred income tax

Recognised deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
	31 December 2014	31 December 2013 (restated)	31 December 2014	31 December 2013 (restated)	31 December 2014	31 December 2013 (restated)
Property, plant and equipment	-	-	(32,513)	(36,809)	(32,513)	(36,809)
Assets classified as held for sale	127	-	-	(70)	127	(70)
Investment property	-	-	(46)	(57)	(46)	(57)
Trade and other receivables	876	-	-	(815)	876	(815)
Trade and other payables	957	71	-	-	957	71
Employee benefits	54	74	-	-	54	74
Unrecognised tax loss carry forwards for the year	153	-	-	-	153	-
Provisions	37	9	-	-	37	9
Borrowings	-	-	(144)	(174)	(144)	(174)
Other current and non-current assets	-	-	(748)	(108)	(748)	(108)
Other	19	18	-	-	19	18
Total	**2,223**	**172**	**(33,451)**	**(38,033)**	**(31,228)**	**(37,861)**

Movements in deferred income tax during the year ended 31 December 2013 and 31 December 2014 are as follows:

	31 December 2012	Recognised in income	Recognised in equity	Reclassification	31 December 2013 (restated)
Property, plant and equipment	(25,491)	640	(11,765)	(193)	(36,809)
Assets classified as held for sale	(268)	5	-	193	(70)
Investment property	(50)	(7)	-	-	(57)
Trade and other receivables	(236)	(579)	-	-	(815)
Trade and other payables	55	16	-	-	71
Employee benefits	73	10	(9)	-	74
Provisions	13	(4)	-	-	9
Borrowings	(207)	33	-	-	(174)
Other current and non-current assets	(87)	(21)	-	-	(108)
Other	19	(1)	-	-	18
Total	**(26,179)**	**92**	**(11,774)**	**-**	**(37,861)**

(in millions of Russian Roubles)

	31 December 2013	Recognised in income	Recognised in equity	Reclassification	31 December 2014
Property, plant and equipment	(36,809)	1,931	2,407	(42)	(32,513)
Assets classified as held for sale	(70)	12	-	185	127
Investment property	(57)	11	-	-	(46)
Trade and other receivables	(815)	1,834	-	(143)	876
Trade and other payables	71	114	772	-	957
Employee benefits	74	(6)	(14)	-	54
Unrecognised tax loss carry forwards for the year	-	153	-	-	153
Provisions	9	28	-	-	37
Borrowings	(174)	30	-	-	(144)
Other current and non-current assets	(108)	(640)	-	-	(748)
Other	18	1	-	-	19
Total	**(37,861)**	**3,468**	**3,165**	-	**(31,228)**

Note 29. Discontinued operations

In October 2014 the Company disposed "TER Group". The results of these subsidiaries presented below:

	Year ended 31 December 2014	Year ended 31 December 2013
Revenue and other income	3,860	1,312
Expenses	(4, 171)	(1,272)
(Loss)/profit before interest and tax of discontinued operations	(311)	40
Finance expense	(73)	(18)
Income tax relating to profit before tax of discontinued operations	57	3
(Loss)/profit after tax of discontinued operations	**(327)**	**24**

An analysis of the cash flows of discontinued operations is as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Operating cash flows	350	(415)
Investing cash flows	(104)	-
Financing cash flows	89	346
Total cash flows	**335**	**(69)**

Note 30. Earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding, calculated as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Issued shares	39,749,360	39,749,360
Effect of own shares held	(140,229)	(140,229)
Weighted average number of ordinary shares (thousands)	**39,609,131**	**39,609,131**

(in millions of Russian Roubles)

The following is a reconciliation of the profit attributable to ordinary shareholders:

	Year ended 31 December 2014	Year ended 31 December 2013
Weighted average number of ordinary shares issued (thousands)	39,609,131	39,609,131
(Loss)/profit for the year	(3,067)	7,484
Profit/(loss) per ordinary share (basic and diluted) (in Russian Roubles)	**(0.08)**	**0.19**

There are no dilutive financial instruments as of 31 December 2014 and 31 December 2013.

Note 31. Financial instruments

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their fair value hierarchy:

	31 December 2014								
	Carrying amount					Fair value			
	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value									
Other investments (Note 11)	-	-	3,159	-	**3,159**	-	-	3,159	**3,159**
Total	**-**	**-**	**3,159**	**-**	**3,159**				
Financial assets not measured at fair value									
Promissory notes (Note 11)	746	-	-	-	**746**	-	-	746	**746**
Deposits (Note 11)	2,700	-	-	-	**2,700**	-	2,700	-	**2,700**
Trade and other receivables (Note 12)	-	43,832	-	-	**43,832**	-	-	43,832	**43,832**
Cash and cash equivalents (Note 10)	-	9,677	-	-	**9,677**	-	9,677	-	**9,677**
Total	**3,446**	**53,509**	**-**	**-**	**56,955**				
Financial liabilities not measured at fair value									
Unsecured bank loans (Note 16)	-	-	-	(47,334)	**(47,334)**	-	(47,334)	-	**(47,334)**
Unsecured bond issues (Note 16)	-	-	-	(105)	**(105)**	(98)	-	-	**(98)**
Other loans (Note 16)	-	-	-	(1,700)	**(1,700)**	-	-	(1,700)	**(1,700)**
Trade and other payables (Note 18)	-	-	-	(19,644)	**(19,644)**	-	(19,644)	-	**(19,644)**
Total	**-**	**-**	**-**	**(68,783)**	**(68,783)**				

(in millions of Russian Roubles)

	31 December 2013								
	Carrying amount					Fair value			
	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value									
Other investments (Note 11)	-	-	3,159	-	**3,159**	-	-	3,159	**3,159**
Total	**-**	**-**	**3,159**	**-**	**3,159**				
Financial assets not measured at fair value									
Promissory notes (Note 11)	732	-	-	-	**732**	-	-	732	**732**
Trade and other receivables (Note 12)	-	32,340	-	-	**32,340**	-	-	32,341	**32,341**
Cash and cash equivalents (Note 10)	-	2,871	-	-	**2,871**	-	2,871	-	**2,871**
Total	**732**	**35,211**	**-**	**-**	**35,943**				
Financial liabilities not measured at fair value									
Unsecured bank loans (Note 16)	-	-	-	(19,672)	**(19,672)**	-	(19,672)	-	**(19,672)**
Unsecured bond issues (Note 16)	-	-	-	(5,105)	**(5,105)**	(5,158)	-	-	**(5,158)**
Other loans (Note 16)	-	-	-	(1,700)	**(1,700)**	-	-	(1,700)	**(1,700)**
Trade and other payables (Note 18)	-	-	-	(11,046)	**(11,046)**	-	(11,046)	-	**(11,046)**
Total	**-**	**-**	**-**	**(37,523)**	**(37,523)**				

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used. The fair values for financial instruments such as short-tem trade and other receivables, trade and other payables is not disclosed because their carrying amounts are a reasonable approximation of fair values.

	Valuation technique	Significant unobservable inputs
Financial assets measured at fair value		
Other investments	Discounted Cash Flows("DCF")	EBITDA Risk-adjusted discount rate
Financial assets not measured at fair value		
Promissory notes	DCF	Not applicable
Financial liabilities not measured at fair value		
Other loans	DCF	Not applicable

There were no changes in valuation technique for Level 2 and Level 3 fair value measurements during the year ended 31 December 2014 (for the year ended 31 December 2013: none). There were no transferes between levels during the year ended 31 December 2014 (for the year ended 31 December 2013: none).

(b) Financial risk management

The group is exposed to a number of different financial risks arising from natural business exposures as well as its use of financial instruments including: market risks relating to foreign currency exchange rates and interest rates, credit risk and liquidity risk.

(in millions of Russian Roubles)

(i) Credit risk

Trade and other receivables

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of sales was:

	Carrying amount	
	31 December 2014	31 December 2013
Heat	27,757	20,288
Electricity	7,603	7,709
Other	6,594	4,263
Total	**41,954**	**32,260**

Debtors within two main classes of accounts receivable electricity and heat are quite homogenous regarding their credit quality and concentration of credit risk.

The account receivables of the Group are primarily comprised of a few, large, reputed customers who purchase electricity and heat. Historical data, including payment history during the recent credit crisis, would suggest that the risk of default from such customers is very low.

The most important customers of the Group, OJSC "MOEK" and CJSC "CFR", accounts for RR 23,760 million and RR 2,097 million, respectively, for the trade receivables carrying amount at 31 December 2014 (at 31 December 2013: RR 15,267 million and RR 2,237 million, respectively).

Impairment losses

The aging of trade and other receivables at the reporting date was:

	31 December 2014		31 December 2013	
	Gross	Impairment	Gross	Impairment
Not past due	34,206	-	25,200	-
Past due 0-30 days	1,225	-	1,246	96
Past due 31-120 days	1,415	85	1,516	46
Past due 121-365 days	3,425	551	4,175	1,425
More than one year	8,513	6,194	6,006	4,316
Total	**48,784**	**6,830**	**38,143**	**5,883**

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2014	2013
Balance at 1 January	**5,883**	**3,538**
Impairment loss recognized during the year	2 001	2,504
Acquistion of subsidiary	-	17
Allowance used and written off	(1 054)	(176)
Balance at 31 December	**6,830**	**5,883**

The impairment allowance at 31 December 2014 of RR 6,830 million (at 31 December 2013: RR 5,883 million) relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due by up to 120 days; 81.58 percent of the balance (at 31 December 2013: 72.79 percent), which includes the amount owed by the most significant customer of the Group (see above), relates to customers that have a good track record with the Group.

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and written off against the financial asset directly.

(in millions of Russian Roubles)

Cash in banks and call deposits

All bank balances and call deposits are neither past due nor impaired. Analysis by credit quality of bank balances and call deposits are as follows:

Name of the bank	Rating agency	Rating	31 December 2014	Rating	31 December 2013
OJSC "Sberbank Rossii"	Moody's Interfax	Aaa.ru	4,315	Aaa.ru	170
OJSC "Alfa-Bank"	Fitch Ratings	BB	2,331	AA+(rus)	1,175
OJSC "VTB"	Fitch Ratings	BB+	2,000	AA+(rus)	8
OJSC "AB "Rossia"	Moody's Interfax	-	809	A3.ru	1,240
OJSC "Gazprombank"	Standard & Poor's	BB+	220	BBB-	69
Other	-	-	2	-	209
Total			**9,677**		**2,871**

The Group pursues the policy of cooperation with a number of the top Russian banks, which is approved by the Board of Directors.

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2014:

	Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans	47,334	61,191	2,526	2,461	4,900	24,229	3,092	14,412	9,571
Unsecured bond issues	105	126	4	4	9	109	-	-	-
Other loans	1,700	2,576	30	62	123	123	123	123	1,992
Trade and other payables	19,644	26,592	15,991	156	610	313	313	313	8,896
Total	**68,783**	**90,485**	**18,551**	**2,683**	**5,642**	**24,774**	**3,528**	**14,848**	**20,459**

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2013:

	Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financialliabilities									
Unsecured bank loans	19,672	22,969	2,202	1,077	4,382	5,428	2,970	1,447	5,463
Unsecured bond issues	5,105	5,560	221	5,221	9	109	-	-	-
Other loans	1,700	2,790	62	61	123	123	123	123	2,175
Trade and other payables	11,046	11,046	10,840	-	206	-	-	-	-
Total	**37,523**	**42,365**	**13,325**	**6,359**	**4,720**	**5,660**	**3,093**	**1,570**	**7,638**

All of the Group's financial liabilities are carried at amortised cost.

(in millions of Russian Roubles)

(iii) Currency risk

Exposure to currency risk

	31 December 2014	31 December 2013
Investments	2,700	-
Cash and cash equivalents	-	113
Unsecured bank loans	(15,584)	(11,098)
Gross balance sheet exposure	**(12,884)**	**(10,985)**
Interest payable	(380)	(254)
Gross exposure	**(380)**	**(254)**
Net exposure	**(13,264)**	**(11,239)**

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
EURO	50,8150	42,3129	68,3427	44,9699

Sensitivity analysis

A 20% strengthening of the RR against EUR at 31 December 2014 would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 31 December 2013.

	31 December 2014	31 December 2013
EURO	2,665	2,258

A 20% weakening of the RR against the EUR at 31 December 2014 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

The actual increase in the average exchange rates for the year ended 31 December 2014 was approximately 20% for the EURO (at 31 December 2013: 6%), the difference between the two actual extremes in the reported period was approximately 88% (at 31 December 2013: 14%).

(iv) Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	31 December 2014	31 December 2013
Fixed rate instruments		
Financial assets (Note 10, 11, 12)	60,114	39,103
Financial liabilities (Note 16,18)	(53,199)	(26,425)
Total	**6,915**	**12,678**
Variable rate instruments		
Financial liabilities (Note 16)	(15,584)	(11,098)
Total	**(15,584)**	**(11,098)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(in millions of Russian Roubles)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 December 2014 and 31 December 2013.

	31 December 2014		31 December 2013	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	(128.4)	128.4	(126.2)	126.2
Cash flow sensitivity (net)	**(128.4)**	**128.4**	**(126.2)**	**126.2**

Note 32. Leases

(a) Operating leases

Operating leases refer mainly to long-term rental agreements for land rent where generation facilities of the Group are located. The leases typically run for periods from 5 to 45 years with an option to renew the lease. During for the year ended 31 December 2014 and 31 December 2013 operating lease expenses in amounts of RR 1,197 million and RR 891 million respectively were recognised in the consolidated statement of comprehensive income (Note 25).

Non-cancellable operating lease rentals are payable as follows:

	31 December 2014	31 December 2013
Less than one year	612	484
Between one and five years	2,373	1,920
More than five years	14,441	13,198
Total	**17,426**	**15,602**

(b) Finance leases

Finance lease rentals are payable as follows (Note 7):

	31 December 2014			31 December 2013		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	313	293	20	32	7	25
Between one and five years	1,251	1,151	100	1	-	1
More than five years	8,872	5,474	3,398	-	-	-
Total	**10,436**	**6,918**	**3,518**	**33**	**7**	**26**

Note 33. Commitments and contingencies

(a) Capital commitments

At 31 December 2014 the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RR 18,572 million (at 31 December 2013: RR 20,972 million). The amount includes Capacity Supply Contracts capital commitments for amount RR 5,851 million (at 31 December 2013: RR 14,613 million).

(b) Taxation environment

The Russian tax legislation is subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

Management believes that as at 31 December 2014 its interpretation of the relevant legislation was appropriate and the Group's tax position would be sustained.

(in millions of Russian Roubles)

The transfer pricing rules that became effective from 1 January 2012 appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlledtransactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

(c) Environmental liabilities

Environmental regulations are currently in the process of development in the Russian Federation. Group evaluates on a regular basis its obligations due to new and amended legislation. As liabilities in respect of environmental obligations can be measured, they are immediately recognised in profit or loss. Currently the likelihood and amount of potential environmental liabilities cannot be estimated reliably but could be material. However, management believes that under existing legislation there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

(d) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not generally available. Management believes that the Group has adequate property damage coverage for its main production assets. The Group does not have full coverage for business interruption and third party liability. Until the Group obtains adequate insurance coverage, there is a risk that the loss from business interruption and third party liability could have a material adverse effect on the Group's operations and financial position.

(e) Guarantees

The Group has issued direct guarantees to third parties which require the Group to make contingent payments based on the occurrence of certain events consisting primarily of guarantees for mortgages of Group employees amounting to RR 65 million at 31 December 2014 (at 31 December 2013: RR 66 million).

Note 34. Operating segments

The chief operating decision-maker has been identified as the Board of Directors and Chief Executive Officer. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. The Group has determined the operating segments based on these reports to be individual power generating units.

The decision-maker assesses the operating performance of these individual power generating units based on its revenue and directly attributable costs. Interest income and expenditure are treated as central costs of the Group. Other information provided to the decision-maker is measured in a manner consistent with that in the financial statements.

The operating segments are aggregated into two primary reporting segments; electricity and heat. Despite of the fact that there are modernised and unmodernised power generating units amongst operating segments which show significantly different gross margins, this aggregation is premised on the identical nature of their products, production process, the class of customers, the methods used to distribute their products and the nature of the regulatory environment. This aggregation results from the similar economic characteristics, over the long run, of these two distinct outputs.

Other services and products sold by the Group mainly include rent services, feed water sales and maintenance services. These are not included within the reportable operating segments. The results of these operations are included in the "all other segments" column.

Taxes balances and available-for-sale financial assets are not considered to be segment assets but rather are managed by the central function. These are part of the reconciliation to total consolidated statement of financial position assets.

(a) Segment information

The segment information for year ended 31 December 2014 and at 31 December 2014 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue	**21**	**92,166**	**65,460**	**3,806**	**161,432**
Expenses:					
Fuel and water usage expenses	22	(96,131)	(686)	-	(96,817)
Heat transmission		-	(7,330)	-	(7,330)
Purchased electricity	22	(8,317)	(169)	-	(8,486)
Purchased heat	22	-	(141)	-	(141)
Segment result		**(12,282)**	**57,134**	**3,806**	**48,658**

(in millions of Russian Roubles)

	Note	Electricity	Heat	All other segments	Total
Segment assets		**281,261**	**44,569**	**19,027**	**344,857**

The segment information for the year ended 31 December 2013 and at 31 December 2013 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue	21	91,324	61,154	3,454	155,932
Expenses:					
Fuel and water usage expenses	22	(90,012)	(613)	-	(90,625)
Heat transmission		-	(7,641)	-	(7,641)
Purchased electricity	22	(8,701)	(171)	-	(8,872)
Purchased heat	22	-	(497)	-	(497)
Segment result		**(7,389)**	**52,232**	**3,454**	**48,297**
Segment assets		**278,544**	**28,395**	**27,680**	**334,619**

The segment assets include impairment loss recognised for property, plant and equipment for year ended 31 December 2014 in total amount RR 16,175 million, allocated in amount of RR 15,313 million to the electricity segment, RR 440 million to the heat segment and RR 422 million to all other segments (at 31 December 2013: RR 532 million to the electricity segment, RR 30 million to the heat segment and RR 340 million to all other segments).

A reconciliation of adjusted gross margin to profit before tax is provided as follows:

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Segment result for reportable segments		44,852	44,843
Other segments gross margin		3,806	3,454
Financial income	27	1,087	614
Other operating income	26	2,615	1,015
Depreciation of property, plant and equipment	7	(15,469)	(13,965)
Personnel expenses	24	(9,935)	(9,360)
Other external supplies	23	(3,539)	(4,101)
Maintenance and repairs expenses		(5,416)	(4,743)
Taxes other than income tax		(1,736)	(391)
Cost of materials	22	(734)	(617)
Financial expenses	27	(5,962)	(1,283)
Impairment loss of property, plant and equipment		(7,019)	(902)
Other operating expenses	25	(5,854)	(5,396)
(Loss)/profit before income tax		**(3,304)**	**9,168**

(b) Reportable segments' assets

The amounts provided to the decision makers with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	Note	31 December 2014	31 December 2013
Segment assets		344,857	334,619
Unallocated:			
Available for sale financial assets	14	3,159	3,159
Income tax receivables		1	384
Taxes other than income tax prepaid	12	54	794
Total assets per consolidated statement of financial position		**348,071**	**338,956**

(c) Information about major customers

During the year ended 31 December 2014 there were certain customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from CJSC "ZFR" for the year ended 31 December 2014 amounted to RR 56,424 million. The revenue was obtained from sales of electricity and capacity relating to the electricity segment.
- Revenue from OJSC "MOEK" for the year ended 31 December 2014 amounted to RR 41,322 million. The revenue was obtained from sales of heat relating to the heat segment.

During the year ended 31 December 2013 there were certain customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from CJSC "ZFR" for the year ended 31 December 2013 amounted to RR 56,813 million. The revenue was obtained from sales of electricity and capacity relating to the electricity segment.
- Revenue from OJSC "MOEK" for the year ended 31 December 2013 amounted to RR 36,869 million and RR 20,306 million. The revenue was obtained from sales of heat relating to the heat segment.

Director, ZAO «PricewaterhouseCoopers Audit»

O.I.Kabanova
25 March 2015

54 (fifty four) pages are numbered, bound and sealed