Joint Stock Company
Territorial Generating Company №1
and its subsidiaries

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor’s Report

2014

Independent Auditor's Report

To the Shareholders and Board of Directors of Joint Stock Company Territorial Generating Company №1

We have audited the accompanying consolidated financial statements of Joint Stock Company Territorial Generating Company №1 and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

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

ZAO PricewaterhouseCoopers Audit

10 March 2015

Moscow, Russian Federation

V.Y. Sokolov, Director (licence no. 01-000024), ZAO PricewaterhouseCoopers Audit

Audited entity: Joint Stock Company Territorial Generating Company № 1

Certificate of inclusion in the Unified State Register of Legal Entities issued on 25 March 2005 under registration № 1057810153400

198188, Russian Federation, St-Petersburg, Bronevaya str., 6, litera B

Independent auditor: ZAO PricewaterhouseCoopers Audit

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

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

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

(in thousands of Russian Roubles)

	Notes	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	7	128 476 563	130 188 242
Investment property		88 489	91 753
Intangible assets		506 919	450 588
Investments in associatesand joint ventures	8	427 137	441 861
Deferred income tax assets	9	302 332	367 153
Other non-current assets	10	369 044	199 902
Total non-current assets		**130 170 484**	**131 739 499**
Current assets			
Cash and cash equivalents	11	2 265 399	243 005
Short-term investments	12	30 073	16 800
Trade and other receivables	14	15 009 886	15 866 038
Current income tax prepayments		120 705	69 721
Inventories	15	2 646 806	2 608 380
		20 072 869	**18 803 944**
Non-current assets held for sale	13	86 651	58 325
Total current assets		**20 159 520**	**18 862 269**
TOTAL ASSETS		**150 330 004**	**150 601 768**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	38 543 414	38 543 414
Share premium	16	22 913 678	22 913 678
Merger reserve	16	(6 086 949)	(6 086 949)
Other reserves		(1 209 011)	(1 209 011)
Effect of remeasurements of post-employment benefits obligations		128 851	37 001
Retained earnings		37 821 995	34 575 950
Equity attributable to the Company's owners		**92 111 978**	**88 774 083**
Non-controlling interest	33	8 605 089	8 340 797
TOTAL EQUITY		**100 717 067**	**97 114 880**
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	9	10 258 223	10 982 905
Long-term borrowings	17	21 260 080	21 070 249
Other non-current liabilities	18	208 755	139 958
Post-employment benefits obligations	19	724 666	854 296
Total non-current liabilities		**32 451 724**	**33 047 408**
Current liabilities			
Short-term borrowings	20	8 692 944	11 678 565
Trade and other payables	21	7 015 331	7 556 813
Current income tax payable		-	24 807
Other taxes payable	22	1 452 938	1 179 295
Total current liabilities		**17 161 213**	**20 439 480**
TOTAL LIABILITIES		**49 612 937**	**53 486 888**
TOTAL EQUITY AND LIABILITIES		**150 330 004**	**150 601 768**

Approved for issue and signed on 10 March 2015.

General Director	A. V. Barvinok
Chief Accountant	R. V. Stanishevskaya

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Revenue			
Sales of electricity		40 198 234	42 819 556
Sales of heat		27 691 439	25 951 590
Other sales	23	1 106 540	1 081 880
Total revenue		**68 996 213**	**69 853 026**
Government grants	24	561 864	437 464
Operating expenses	25	(60 660 734)	(60 120 586)
Impairment loss recognized during the year	7	(2 952 877)	(740 427)
Other operating income	26	551 765	461 519
Total operating expenses		**(62 499 982)**	**(59 962 030)**
Operating profit		**6 496 231**	**9 890 996**
Finance income	27	116 633	90 845
Finance costs	27	(2 741 471)	(2 084 441)
Finance costs, net		**(2 624 838)**	**(1 993 596)**
Profit before income tax		**3 871 393**	**7 897 400**
Income tax expense	9	277 506	(1 129 861)
Profit for the year		**4 148 899**	**6 767 539**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits obligations		114 305	29 734
Income tax on remeasurement of post-employment benefit obligations		(17 388)	(6 817)
Other comprehensive income for the year		**96 917**	**22 917**
Total comprehensive income for the year		**4 245 816**	**6 790 456**
Profit is attributable to:			
Owners of the TGC-1		3 889 674	6 323 685
Non-controlling interests		259 225	443 854
Profit for the year		**4 148 899**	**6 767 539**
Total comprehensive income is attributable to:			
Owners of the TGC-1		3 981 524	6 348 697
Non-controlling interests		264 292	441 759
Total comprehensive income for the year		**4 245 816**	**6 790 456**
Earnings per ordinary share for profit attributable to owners of the TGC-1, basic and diluted (in Russian Roubles)	28	0.0010	0.0016

(in thousands of Russian Roubles)

	Attributable to owners of the Company								
	Share capital	Effect of remeasurements of post-employment benefits obligations	Share premium	Merger reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2013	**38 543 414**	**11 989**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**28 721 743**	**82 894 864**	**7 899 038**	**90 793 902**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	**6 323 685**	**6 323 685**	**443 854**	**6 767 539**
Other comprehensive income									
Remeasurements of post-employment benefits obligations	-	32 353	-	-	-	-	**32 353**	(2 619)	29 734
Income tax on other comprehensive income	-	(7 341)	-	-	-	-	(7 341)	524	(6 817)
Total other comprehensive income	**-**	25 012	**-**	**-**	**-**	**-**	**25 012**	(2 095)	**22 917**
Total comprehensive income for the year	**-**	**25 012**	**-**	**-**	**-**	**6 323 685**	**6 348 697**	**441 759**	**6 790 456**
Transactions with owners									
Dividends	-	-	-	-	-	(469 478)	**(469 478)**	-	**(469 478)**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(469 478)**	**(469 478)**	**-**	**(469 478)**
Balance at 31 December 2013	**38 543 414**	**37 001**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**34 575 950**	**88 774 083**	**8 340 797**	**97 114 880**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	**3 889 674**	**3 889 674**	**259 225**	**4 148 899**
Other comprehensive income									
Remeasurements of post-employment benefits obligations	-	108 256	-	-	-	-	**108 256**	6 049	**114 305**
Income tax on other comprehensive income	-	(16 406)	-	-	-	-	(16 406)	(982)	**(17 388)**
Total other comprehensive income	-	91 850	-	-	-	-	**91 850**	5 067	**96 917**
Total comprehensive income for the year	**-**	**91 850**	**-**	**-**	**-**	**3 889 674**	**3 981 524**	**264 292**	**4 245 816**
Transactions with owners									
Dividends	-	-	-	-	-	(643 629)	(643 629)	-	(643 629)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(643 629)**	**(643 629)**	**-**	**(643 629)**
Balance at 31 December 2014	**38 543 414**	**128 851**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**37 821 995**	**92 111 978**	**8 605 089**	**100 717 067**

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Cash flows from operating activities			
Profit before income tax		3 871 393	7 897 400
Adjustments for:			
Depreciation of property, plant and equipment	7	6 573 971	6 224 731
Amortisation of intangible assets	25	132 893	177 669
Amortisation of investment property		6 028	5 091
Impairment loss recognized during the year	7	2 952 877	740 427
Finance expense, net	27	2 624 838	1 993 596
Change in provision for impairment of accounts receivable	25	2 404 443	1 136 566
Gain on disposals of property, plant and equipment	25	(1 589 916)	(204 746)
Decrease of post-employment benefits obligations	19	(15 325)	(29 649)
Other non-cash items		2 255	61 939
Operating cash flows before working capital changes		**16 963 457**	**18 003 024**
Increase in trade and other receivables	10, 14	(2 166 328)	(3 177 520)
Increase in inventories	15	(22 929)	(83 788)
Decrease in trade and other payables	20	(274 985)	(781 599)
Increase in other taxes payable	21	273 643	271 525
Cash generated from operations		**14 772 858**	**14 231 642**
Income taxes paid		(475 533)	(73 260)
Interest paid		(2 620 645)	(2 928 242)
Net cash from operating activities		**11 676 680**	**11 230 140**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(8 279 028)	(7 053 823)
Proceeds from sale of property, plant and equipment		2 585 527	94 671
Dividends received from associate		-	1 299
Purchase of intangible assets		(157 084)	(168 271)
Interest received		112 963	42 146
Net cash used in investing activities		**(5 737 622)**	**(7 083 978)**
Cash flows from financing activities			
Proceeds from borrowings		25 444 669	87 840 925
Repayments of borrowings		(28 749 223)	(91 989 921)
Dividends paid to the Company's shareholders		(643 629)	(469 478)
Net cash from financing activities		**(3 948 183)**	**(4 618 474)**
Effect of exchange rate changes on cash and cash equivalents		31 519	(4 658)
Cash and cash equivalents at the beginning of the year		**243 005**	**719 975**
Cash and cash equivalents at the end of the year		**2 265 399**	**243 005**

(in thousands of Russian Roubles)

Note 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2014 for Open Joint-Stock Company (OJSC) Territorial Generating Company № 1(here in after "TGC-1", or the "Company") and its subsidiaries (the "Group").

The Company was incorporated and is domiciled in the Russian Federation. It is an open joint stock company and was established in accordance with Russian law.

"TGC-1" was established on 25 March 2005 as part of the restructuring of Russia's electricity sector in accordance with Board of Directors Resolution No. 181 of RAO UES of Russia (here in after "RAO UES") on 26 November 2004. The structure and founding principles of TGC-1 were adopted by the RAO UES Board of Directors on 23 April 2004 (Resolution No. 168).

The Group consists of the Company and the following subsidiaries. All Group companies are incorporated in the Russian Federation.

	% of ownership as at 31 December		
Subsidiary	2014	2013	Immediate parent
JSC Murmanskaya TPP	90.3423	90.3423	JSC TGC-1
OJSC St Petersburg Heating Grid	74.9997	74.9997	JSC TGC-1

As the operator of 54 power plants, the Group is principally engaged in electricity, capacity and heat generation. The Group's generating assets are located in the North-West of Russia, in particular in St. Petersburg, the Leningrad region, the Murmansk region and in Karelia region.

The Company's registered office is located at 6 Bronevaya Str., litera B, St. Petersburg, Russia, 198188.

Note 2. Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 30). 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 32.6587 and RR 67.7851 per USD;
- the CBRF key interest rate increased from 5.5% p.a. to 17.0% p.a. including an increase from 12.0% p.a. to 17.0% p.a. on 16 December 2014;
- the RTS stock exchange index ranged between 629.15 and 1 421.07;
- access to international financial markets to raise funding was limited for certain entities; and
- capital outflows increased compared to prior years.

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

- the CBRF exchange rate fluctuated between RR 56.2376 per USD and RR 69.6640 per USD;
- 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 737.35 and 929.35;
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates; and
- the CBRF key rate decreased from 17.0% p.a. to 15% p.a.

Note 2. Operating environment of the Group (continued)

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

Management has determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Thus, final impairment losses from financial assets could differ significantly from the current level of provisions. These standards also require recognition of impairment losses for property, plant and equipment that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are (Note 4).

Government relations and current regulation

As at 31 December 2014 the Group was controlled by the Gazprom Group (51.79% stake) via its subsidiary Gazprom Energoholding LLC (as at 31 December 2013 51.75% stake). The Group's other significant shareholder as at 31 December 2013 and 2014 was Fortum Power and Heat Oy (25.66% stake). The Gazprom Group is controlled by the government of the Russian Federation, which was the Group's ultimate controlling party as at 31 December 2014 and 2013.

The Group's customer base also includes a large number of state-controlled entities. Furthermore, the government also controls a number of the Group's suppliers of fuel and other materials.

The Russian government directly affects the Group's operations through the Federal Tariff Service ("FTS"), which regulates its wholesale energy purchases, and by the St Petersburg Tariff Service, Leningrad Regional Tariff Service, Karelia Tariff Service and Murmansk Regional Tariff Service, which regulate its retail electricity, capacity and heat sales. The operations of all generating facilities are coordinated by OJSC System Operator of Unified Energy System, a state-controlled company.

Tariffs which the Group may charge for electricity, capacity and heat sales are governed by regulations specific to the electricity, capacity and heat industry and that apply to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning the cost of service plus a margin.

As described in Note 30, the government's economic, social and other policies could have a material effect on Group operations.

Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. Management believes that the Group will have a sufficient liquidity to continue its operations in the foreseeable future.

As at 31 December 2014, the Group's current assets exceeded its current liabilities by RUB 2 998 307 thousand (as at 31 December 2013 the Group's current liabilities exceeded its current assets by RUB 1 577 211 thousand).

Management believes that the Group will have a sufficient liquidity to continue its operations in the foreseeable future. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Note 3. Summary of Significant Accounting Polices

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (Refer to Note 5).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made.

The Group may have power over an investee even when it holds less than majority of voting power in an investee.

In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) 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.

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.

Note 3. Summary of Significant Accounting Polices (continued)

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

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

Presentation currency

These consolidated financial statements are presented in thousands of Russian Roubles (RUB thousand), unless otherwise stated.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles (RUB).

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period.

Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Revenue is translated into each entity's functional currency using the official exchange rate of the CBRF at the respective date of transaction.

At 31 December 2014, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (USD) was USD 1 = RUB 56.2584 (31 December 2013: USD 1 = RUB 32.7292), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 68.3427 (31 December 2013: EUR 1 = RUB 44.9699).

Associates

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

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Note 3. Summary of Significant Accounting Polices (continued)

Disposals of subsidiaries, associates or joint ventures

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

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

Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

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

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

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

Note 3. Summary of Significant Accounting Polices (continued)

Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The Group does not have the following categories of financial assets: financial assets at fair value through profit or loss, financial assets held to maturity and available-for-sale financial assets.

Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. The Group's loans and receivables comprise of 'trade and other receivables' and 'short-term investments' in the statement of financial position.

Classification of financial liabilities

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

The Group does not have financial liabilities relate to category held for trading which also includes financial derivatives.

Initial recognition of financial instruments

Financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss in finance costs.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(in thousands of Russian Roubles)

Note 3. Summary of Significant Accounting Polices (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Property, plant and equipment includes assets under construction for future use as property, plant and equipment. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

At the time of the Group's establishment in 2005 property, plant and equipment were recorded at the carrying values determined in accordance with the IFRS at the date of their transfer to the Group by its predecessor entity RAO UES.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less selling costs and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or losses. An impairment loss recognized for an asset in prior periods is reversed if there has been a positive change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year within other operating income or costs.

Costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Gains and losses arising from disposal of property, plant and equipment are included in profit or losses.

Social assets are not included in property, plant and equipment as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition, or for internally constructed assets, from the time the asset is completed and ready for use.

The estimated useful lives, in years, of assets by type of facility are as follows:

Type of facility	Useful lives, years
Production buildings	40-50
Hydrotechnical buildings	50-60
Generating equipment	20-30
Heating networks	25-35
Other	10-25

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated disposal costs, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment.

Note 3. Summary of Significant Accounting Polices (continued)

Land held under operating leases is classified and accounted for by the Group as investment property when the rest of the definition of investment property is met.

Earned rental income is recorded in profit or loss for the year within other operating income.

Gains or losses on disposal of investment property are calculated as proceeds less the carrying amount.

Operating lease

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or losses on a straight-line basis over the period of the lease. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Operating leases include long-term leases of land with rental payments contingent on cadastral values regularly reviewed by the government.

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

Finance lease liabilities

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

Intangible assets

The Group's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them into use. Amortisation is included in operating expenses (Note 25).

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software licences	2-15
Capitalised internal software development costs	2-15
Other licences	4-10

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Income taxes

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

Current tax is the amount expected to be paid to, or recovered from, the tax authorities on taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

The Group's uncertain tax positions are reassessed by management at every reporting date. 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.

Note 3. Summary of Significant Accounting Polices (continued)

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date 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 reporting date.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profits will be available against which the deductionscan be utilised. Deferred tax assets and liabilities are netted only within the individual entities of the Group.

Deferred tax is not provided for the undistributed earnings of the subsidiaries, as the Group controls the subsidiaries' dividend policy and requires profits to be reinvested. Only insignificant dividends are expected to be declared from future profits of the subsidiaries. Neither these future profits nor the related taxes are recognised in these consolidated financial statements.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis. The net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables

Accounts receivable are recorded inclusive of VAT. Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost

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

If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and liquidity of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty is experiencing a significant financial difficulty as evidenced by its financial data that the Group has obtained;
- the counterparty is considering bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, has significantly decreased as a result of deteriorating market conditions.

Note 3. Summary of Significant Accounting Polices (continued)

Prepayments

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid short-term investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Non-current assets classified as held for sale

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

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

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition.

Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, investment properties and intangible assets are not depreciated.

Reclassified non-current financial instruments, deferred taxes and investment properties held at fair value are not subject to write down to the lower of their carrying amount and fair value less costs to sell. Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded in equity as a share premium.

Note 3. Summary of Significant Accounting Polices (continued)

Merger reserve

Any difference between the carrying value of the net assets merged into the Group as a result of a transaction under common control, and the nominal value of any shares issued is recorded in equity, as a merger reserve. Merger reserve is not distributable to shareholders and not taxable for income tax purposes.

Other reserves

Difference between the carrying value of the net assets merged into the Group in 2011 as a result of contribution in OJSC «St Petersburg Heating Grid's» share capital, and the nominal value of the shares issued is recorded in equity, as other reserves.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared and approved before or on the reporting date. Dividends are disclosed in subsequent events note when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Value added tax

Output value added tax (VAT) related to sales is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the compensation of income in relation to companies providing heating services per tariffs that don't cover expenses for the costs are deferred and recognised as deferred income in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Trade and other payables

Trade payables and accounts payable for capital construction are accrued when the counterparty performs its contractual obligations under the contract and are carried at amortised cost using the effective interest method.

Borrowings

Borrowings are carried at amortised cost using the effective interest method.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that that necessarily takes a substantial period of time to prepare for its intended use or sale (a qualifying asset) are capitalised as part of the cost of that asset.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditures on qualifying assets. Capitalised borrowing costs 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 acquiring a qualifying asset.

Note 3. Summary of Significant Accounting Polices (continued)

Borrowing costs (continued)

Where this occurs, the actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised. The commencement date for capitalisation is when the Group (i) incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases upon completion of all the activities necessary for preparing the qualifying asset for its intended use or sale.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing and amount. They are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Revenue recognition

Revenue is recognised on the delivery of electricity, capacity and heat. Revenues from sales of non-utility goods are recognised at the point of transfer of risks and rewards of ownership of the goods.

Correspondingly, when in accordance with the utilities market regulation in the Russian Federation, utilities companies are required to conclude transactions for the sale and repurchase of electricity (for bilateral contracts concluded or for electricity consumed in the production process) or when these transactions are performed for the purpose of the price risk hedging, these transactions are recorded on a net basis. Capacity sales are recognized when the capacity obligations have been fulfilled.

Revenues from sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue amounts are presented net of VAT. Revenues are measured at the fair value of the consideration received or receivable.

Mutual cancellations

A portion of sales and purchases are settled by mutual cancellations or non-cash settlements. These transactions are generally in the form of cancellation of mutual balances.

Sales and purchases that are expected to be settled by mutual settlements or non-cash settlements are recognised based on management’s estimate of the fair value to be received or given up in non-cash settlements.

Non-cash transactions have been excluded from the Consolidated Statement of Cash Flow. Investing and financing activities and the total of operating activities represent actual cash flows.

Pension and post-employment benefits

In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme defined by the Russian Federation on behalf of its employees. Mandatory contributions (social insurance contributions) to the governmental pension scheme are expensed when incurred.

The Group also operates defined benefit plans. For some of these plans the Group has a contract with a non-governmental pension fund, whilst the other plans are operated by the Group without engaging pension funds.

Cash paid by the Group to the solidarity account with the non-governmental pension fund is refundable to the Group until it is allocated to individual pensioners’ bank accounts, and, on that basis, is accounted for by the Group as an asset (accounts receivable from the pension fund).

Note 3. Summary of Significant Accounting Polices (continued)

Defined benefit plans determine the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the reporting date. All defined benefit plans are considered to be fully unfunded. The defined benefit obligations are calculated using the projected unit credit method.

Pension and post-employment benefits (continued)

The present value of the defined benefit obligations 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 associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related post-employment benefits.

Remeasurement of defined benefit liability is the actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and recognized in other comprehensive income at a time.

The cost of services of past periods is a change in the present value of defined benefit obligation as a result of adjustments of plan that recognises in the period of changes in plan's conditions.

Employee benefits

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

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Earnings per share

Earnings per share are determined by dividing the profit attributable to the Company's ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. The primary activity of the Group is production of electric and heat power and capacity.

The Group generates its revenues from the generation of electricity, capacity and heat in the Russian Federation, so the Group holds assets in the same geographical area, i.e. the Russian Federation. The technology of electricity, capacity and heat production does not allow for the segregation of the electricity, capacity and heat segments (Note 32).

Note 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Note 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts, recognised in the consolidated financial statements, and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year, include:

Provision for impairment of property, plant and equipment

At each reporting date the carrying amounts of the Group's property, plant and equipment and assets under construction are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such recoverable amount has declined below the carrying value, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 7.

Useful lives of property, plant and equipment

The estimation of the useful life based on an item of property, plant and equipment is a matter of management's judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2014 would be an increase of RUB 694 449 thousand or a decrease it by RUB 586 772 thousand (for the year ended 31 December 2013: increase by RUB 498 061 thousand or decrease by RUB 430 431 thousand).

Recoverability of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectability of specific customer accounts deteriorated compared to previous period estimates. If there has been a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (Note 31).

Pension obligation

The principal actuarial assumptions used to calculate the defined benefit obligation as at 31 December 2014 are listed in Note 19.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are future heat tariffs and heat output.

Based on the management analysis and expectations deferred tax asset was recognised in these financial statements in amount of RUB 302 332 thousand at 31 December 2014 (as at 31 December 2013 – RUB 367 153 thousand). If the actual results differ from the management expectations the recognized deferred tax asset will be written-off in full.

Note 5. Adoption of New or Revised Standards and Interpretations

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

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).

The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. The amended standard did not have a material impact on the Group's consolidated financial statements.

"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).

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

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014).

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

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period).

The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amended standard did not have a material impact on the Group's consolidated financial statements.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).

The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have an impact on the Group's consolidated financial statements.

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. The next standards were adopted in Russia:

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017).

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).

The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any 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, unless otherwise stated below).

The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a "vesting condition" and to define separately "performance condition" and "service condition"; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (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. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (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. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

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

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

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.

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).

This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).

In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment is not expected to have any impact on the Group's financial statements.

Certain new standards and interpretations issued by IASB have not been adopted in Russia yet:

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.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition.
- In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).

The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendment is not expected to have any impact on the Group's financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (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. The Group is currently assessing the impact of the amendments on its separate financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).

The amendments impact 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". The Group is currently assessing the impact of the amendments on its financial statements.

(in thousands of Russian Roubles)

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

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, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

Note 6. Balances and Transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, 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.

Related parties include shareholders that have control or significant influence over the Company, and key management personnel, as well as companies that are controlled by the State or Gazprom Group.

As at 31 December 2014 and 31 December 2013 the Russian Government was the ultimate controlling party of the Group (Note 1), hence significant transactions with other state-controlled entities were disclosed as related party transactions in accordance with IAS 24 requirements.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in the years ended at 31 December 2014 and 2013, and had significant outstanding balances as at 31 December 2014 and 31 December 2013 are detailed below.

OJSC Gazprom and its subsidiaries (under common control of the State)
Transactions with OJSC Gazprom and its subsidiaries were as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Revenue		
Sales of electricity	730 076	914 228
Sales of heat	151 510	83 498
Other	124 137	55 981
Total sales	**1 005 723**	**1 053 707**
Purchases		
Purchases of fuel	(25 111 321)	(26 633 162)
Interest expense	(1 113 748)	(348 802)
Including interest expense of Gazprom Energoholding LLC	*(206 293)*	*(170 000)*
Purchases of electricity	(55 628)	(66 923)
Other	(699 280)	(340 566)
Total purchases	**(26 979 977)**	**(27 389 453)**

(in thousands of Russian Roubles)

Note 6. Balances and Transactions with Related Parties (continued)

Sales and purchases are generally entered into on an arm's length basis. LLC Gazprom Mezhregiongaz is a major supplier of fuel (gas) for the Group.

Balances with Gazprom group subsidiaries at the end of the period were as follows:

	31 December 2014	**31 December 2013**
Borrowings (loans and bonds)	14 204 881	12 516 361
Including loan of Gazprom Energoholding LLC	*2 744 564*	*2 014 438*
Trade and other payables	1 059 679	670 704
Trade and other receivables	737 696	479 588
Cash and cash equivalents	3 845	1 488

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for natural gas and heat are based on tariffs set by FTS, prices for electricity and capacity based on tariffs set by FTS and also based on competitive take-off on the wholesale electricity (capacity) market. Bank loans are obtained at market rates. Taxes are charged and paid under the Russian tax law.

The Group had the following significant transactions with State-controlled entities:

	Year ended 31 December 2014	**Year ended 31 December 2013**
Sales		
Sales of heating	13 492 646	12 846 112
Sales of electricity	8 240 082	8 486 287
Other sales	46 152	121 948
Total sales	**21 778 880**	**21 454 347**
Expenses		
Water usage expenses	(2 328 610)	(2 317 063)
Heat distribution	(1 246 637)	(645 621)
Security services	(388 987)	(344 106)
Operating lease	(141 787)	(153 851)
Transportation expenses	(7 629)	(8 525)
Electricity purchases	(37 101)	(6 301)
Interest expenses	(395 587)	(1 367 873)
Interest income	4 202	28 042
Other operating expenses	(806 651)	(790 750)
Total expenses	**(5 348 787)**	**(5 606 048)**

Other operating expenses are mainly presented by expenses under the agreement with the System Operator of United Energy System for the year ended 31 December 2014 in amount of RUB 778 721 thousand (for the year ended 31 December 2013 – RUB 755 114 thousand).

The Group had the following significant balances with State-controlled entities:

	31 December 2014	**31 December 2013**
Trade and other receivables	8 340 177	8 478 162
Borrowings	3 738 060	6 365 462
Trade and other payables	566 217	769 455
Cash and cash equivalents	254 799	24 307

(in thousands of Russian Roubles)

Note 6. Balances and Transactions with Related Parties (continued)

Movements in impairment provision for receivables in respect to State-controlled entities are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Provision for impairment as at 1 January	**1 115 393**	**1 165 939**
Impairment loss recognised during the period	1 974 744	369 820
Impairment loss reversed during the period	(83 375)	(339 186)
Consumed during the period	(7 851)	(81 180)
Provision for impairment as at 31 December	**2 998 911**	**1 115 393**

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with CJSC Centre of Financial Settlements (CFS). CFS's current financial settlement system of CFS does not provide the final counterparty with automated information about transactions and settlement balances with end consumers. Government-related entities, Gazprom Group and its subsidiaries may also act as counterparties.

The Group had the following significant transactions with CFS:

	Year ended 31 December 2014	Year ended 31 December 2013
Sales of electricity	22 786 973	25 069 143
Electricity purchases	(4 735 449)	(5 961 023)

The Group had the following significant balances with CFS:

	31 December 2014	31 December 2013
Trade and other receivables	905 352	1 015 170
Trade and other payables	277 588	230 499

Transactions with other related parties

Other related parties are mainly represented by the Company's shareholder with a significant influence (Fortum Power and Heat OY) and associates (LLC TGC Service and JSC Hibinskaya Heating Company).

The Group had the following significant income/expenses and balances with other related parties:

	Year ended 31 December 2014	Year ended 31 December 2013
Sales of electricity (Fortum Power and Heat OY)	93 342	133 291
Sales of heat (LLC TGC Service and JSC Hibinskaya Heating Company)	15 520	-
Other income (LLC TGC Service and JSC Hibinskaya Heating Company)	8 969	-
Capital construction expense (LLC TGC Service)	(422 945)	-
Repairs and maintenance (LLC TGC Service)	(833 295)	(1 027 553)
Heat distribution (JSC Hibinskaya Heating Company)	(504 963)	80 194
Other expenses (LLC TGC Service)	(43 949)	-

	31 December 2014	31 December 2013
Trade and other receivables (LLC TGC Service)	191 186	18 776
Trade and other receivables (Fortum Power and Heat OY)	93 342	-
Trade and other receivables (JSC Hibinskaya Heating Company)	3 661	-
Accounts payable (JSC Hibinskaya Heating Company)	(60 491)	(69 840)
Accounts payable (LLC TGC Service)	(446 353)	(304 774)

Transactions and balances with the non-state pension fund of the electrical energy industry and the non-state pension fund Gazfond are disclosed in Note 19.

(in thousands of Russian Roubles)

Note 6. Balances and Transactions with Related Parties (continued)

As at 31 December 2014, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment connected to related parties in the amount of RUB 117 502 thousand (31 December 2013: 189 571 RUB thousand). Sales commitments are disclosed in Note 29.

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

	Year ended 31 December 2014	Year ended 31 December 2013
OJSC Gazprom and its subsidiaries	91 122	107 149
State-controlled entities	1 074	15 983
Other related parties	25 306	66 439
Total	**117 502**	**189 571**

Transactions with the key management personnel

Key management personnel includes members of the Board of Directors, General Director, members of Management Board.

Key management compensation in types is presented below:

	Year ended 31 December 2014	Year ended 31 December 2013
Salaries	90 535	71 738
Short-term bonuses	70 545	63 089
Benefits to the Board of Directors	26 156	26 586
Termination benefits	4 475	7 498
Total	**191 711**	**168 911**

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

The Group had the following balances with key management personnel:

	31 December 2014	31 December 2013
Payables to key management	3 554	2 046
Total	**3 554**	**2 046**

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment

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

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2013	**23 174 563**	**16 718 287**	**56 139 009**	**44 171 440**	**14 451 519**	**37 493 908**	**192 148 726**
Effect of reclassifications	1 828 923	(318 107)	(6 199 275)	(301 372)	-	4 989 831	-
Balance as at 31 December 2013	**25 003 486**	**16 400 180**	**49 939 734**	**43 870 068**	**14 451 519**	**42 483 739**	**192 148 726**
Additions	1 650	-	29 402	436 449	8 450 450	129 443	9 047 394
Transfers	998 420	32 204	1 388 660	2 302 210	(9 518 007)	4 796 513	-
Disposals	(195 573)	(876 487)	(257 789)	(356 344)	(257 306)	(639 252)	(2 582 751)
Reclassification to non-current assets held for sale	(24 988)	-	-	-	-	(153 991)	(178 979)
Balance as at 31 December 2014	**25 782 995**	**15 555 897**	**51 100 007**	**46 252 383**	**13 126 656**	**46 616 452**	**198 434 390**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2013	**(7 314 707)**	**(7 889 372)**	**(16 265 797)**	**(17 955 664)**	**(183 063)**	**(12 351 881)**	**(61 960 484)**
Effect of reclassifications	(502 836)	(2 365)	618 870	(33 798)	-	(79 871)	-
Balance as at 31 December 2013	**(7 817 543)**	**(7 891 737)**	**(15 646 927)**	**(17 989 462)**	**(183 063)**	**(12 431 752)**	**(61 960 484)**
Charge for the year	(630 655)	(256 417)	(1 862 267)	(1 432 133)	-	(2 392 499)	(6 573 971)
Disposals	100 852	413 287	167 771	272 991	-	429 125	1 384 026
Reclassification to non-current assets held for sale	24 055	-	-	-	-	121 424	145 479
Impairment loss recognised during the year	(1 160 410)	(598 054)	(261 773)	(220 041)	-	(712 599)	(2 952 877)
Balance as at 31 December 2014	**(9 483 701)**	**(8 332 921)**	**(17 603 196)**	**(19 368 645)**	**(183 063)**	**(14 986 301)**	**(69 957 827)**
Net book value as at 31 December 2013	**17 185 943**	**8 508 443**	**34 292 807**	**25 880 606**	**14 268 456**	**30 051 987**	**130 188 242**
Net book value as at 31 December 2014	**16 299 294**	**7 222 976**	**33 496 811**	**26 883 738**	**12 943 593**	**31 630 151**	**128 476 563**

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment (continued)

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2012	**22 963 755**	**16 871 063**	**54 462 504**	**41 586 103**	**14 115 102**	**34 844 560**	**184 843 087**
Additions	12 618	-	7 553	683 420	8 236 367	150 106	9 090 064
Transfers	211 484	3 530	1 833 218	2 905 334	(7 626 253)	2 672 687	-
Disposals	(11 724)	(156 306)	(164 266)	(1 003 417)	(253 597)	(124 398)	(1 713 708)
Reclassification to non-current assets held for sale	(1 570)	-	-	-	(20 100)	(49 047)	(70 717)
Balance as at 31 December 2013	**23 174 563**	**16 718 287**	**56 139 009**	**44 171 440**	**14 451 519**	**37 493 908**	**192 148 726**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2012	**(6 500 760)**	**(7 553 883)**	**(14 329 655)**	**(17 062 483)**	**(20 664)**	**(10 319 108)**	**(55 786 553)**
Charge for the year	(599 295)	(279 503)	(1 991 006)	(1 331 359)	-	(2 023 568)	(6 224 731)
Disposals	7 630	98 109	111 712	469 306	-	75 769	762 526
Reclassification to non-current assets held for sale	344	-	-	-	-	28 357	28 701
Impairment losses reversed during the year	(222 626)	(154 095)	(56 848)	(31 128)	(162 399)	(113 331)	(740 427)
Balance as at 31 December 2013	**(7 314 707)**	**(7 889 372)**	**(16 265 797)**	**(17 955 664)**	**(183 063)**	**(12 351 881)**	**(61 960 484)**
Net book value as at 31 December 2012	**16 462 995**	**9 317 180**	**40 132 849**	**24 523 620**	**14 094 438**	**24 525 452**	**129 056 534**
Net book value as at 31 December 2013	**15 859 856**	**8 828 915**	**39 873 212**	**26 215 776**	**14 268 456**	**25 142 027**	**130 188 242**

Note 7. Property, Plant and Equipment (continued)

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been made available for use in production, including generating stations under construction.

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

As at 31 December 2014 the advances given to contractors, which amounted to RUB 548 792 thousand, net of VAT (as at 31 December 2013: RUB 742 249 thousand), are recognised within the construction in progress balance. The respective input VAT is recognized within accounts receivable and prepayments (Note 14).

As at 31 December 2014 and 2013 The Group had no property, plant and equipment pledged as collateral according to loan agreements.

The total amount of capitalised interests that were calculated using 8.8% capitalization rate for the year ended 31 December 2014 is RUB 523 299 thousand (8% capitalization rate for the year ended 31 December 2013: RUB 1 127 354 thousand). The payment of capitalised interests is recorded in Consolidated Statement of Cash Flow in respect of operating activities.

Other property, plant and equipment include assets held under finance leases with a carrying value of RUB 59 979 thousand (as at 31 December 2013: RUB 77 930 thousand).

Non-cash additions to property, plant and equipment equal to RUB 360 115 thousand (in 2013 – RUB 893 289 thousand). Non-cash additions to property, plant and equipment in 2014 mostly relate to mutual settlements and property, plant and equipment, received in the network of compensation agreements (in 2013 mostly relate to mutual settlements and property, plant and equipment, received in the network of compensation agreements).

In 2014 residual value of disposed property, plant and equipment was RUB 1 198 725 thousand.

This amount includes the residual value of property, plant and equipment of Ondskaya HPS of Karelsky branch of RUB 681 696 thousand sold to the third party at 21 October 2014. Revenue from sale of property, plant and equipment was RUB 2 100 000 thousand. So profit from this transaction was 1 418 304 thousand.

Residual value of other disposed property, plant and equipment (sold and written off) was RUB 517 029 thousand. Revenue from sale of property, plant and equipment was RUB 599 694 thousand, income from materials received from written off property, plant and equipment was RUB 45 289 thousand. Profit from disposal of other property, plant and equipment was RUB 171 612 thousand.

Total profit from disposal of property, plant and equipment in 2014 is recorded in operating expenses in the amount of RUB 1 589 916 thousand (Note 25).

In 2013 residual value of disposed property, plant and equipment was RUB 951 182 thousand.

This amount included the residual value of property, plant and equipment of OJSC «St Petersburg Heating Grid», destroyed during repairing and construction works in the amount of RUB 233 620 thousand. At the same time OJSC «St Petersburg Heating Grid» received and recorded addition of property, plant and equipmentin the amount of RUB 621 892 thousand, received in the network of compensation agreements in respect of recovering damage to OJSC «St Petersburg Heating Grid» during repairing and construction works. Profit from this transaction was RUB 388 272 thousand.

Residual value of other disposed in 2013 property, plant and equipment (sold and written off) was RUB 717 562 thousand. Revenue from sale of property, plant and equipment was RUB 460 354 thousand, income from materials received from written off property, plant and equipment was RUB 45 716 thousand. Loss from disposal of property, plant and equipment was RUB 183 526 thousand.

Total profit from disposal of property, plant and equipment in 2013 is recorded in operating expenses in the amount of RUB 204 746 thousand (Note 25).

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment (continued)

Reclassification of net book value of property, plant and equipment as at 31 December 2013 caused by revising the groups of some types of property, plant and equipment. Significant impact on reclassification amount made the property, plant and equipment (transformers, tumblers) classified as «Generating equipment» before, that were transferred to «Other», and also amounts of property, plant and equipment (trestles of production buildings) classified as «Other» before, that were transferred to «Production buildings».

Impairment

Management determined whether there was any indication of impairment of the Group's property, plant and equipment as at 31 December 2014.

The determination of indication of impairment was performed for six cash-generating units: the Thermal Power Plants (TPP) of the Nevsky branch, the Hydro-electric Power Stations (HPS) of the Nevsky branch, St Petersburg Heating Grid, Kolsky and Karelsky branches and the Murmanskaya TPP.

The cash generating units are the same as the reportable segment to which the assets belong (Note 32).

The key indicators of impairment were the following: capacities of the Group were not selected on competitive collection of capacity market (CCC) in 2015, suspension of electricity tariff growth on the day-ahead market (DAM) and suspension of heat tariff growth.

As a result of the impairment test, based on the value in use, impairment loss was recognised for Karelsky branch (reportable segment - Karelsky branch) in the amount of RUB 2 952 877 thousand.

The following key parameters were used in forecasting the further cash flows: forecasts of electricity and capacity prices and heat tariffs, cost of fuel and planned production volumes for forecasting period.

The indexes used by management in forecasting cash flows were based on the Parameters of Forecasting Social and Economic Development of the Russian Federation for 2015 and for planning periods 2016 and 2017 and further – on the forecasts «Global Insight» (before 2044) Issue January 2015.

Forecasting periods for cash-generating units are the same as the average remaining useful lives in the table below.

Management considers that a forecast period greater than five years is more reliable as electricity, capacity and heat market is expected to change significantly over the forecast period, and cash flow projections will be not stabilized within five years. However a forecast period of cash flows was defined as the average remaining useful life of the assets of the cash generating units tested.

Production parameters of the forecast model, beginning 2020, are fixed on the 2019 level, and long-term model's macroeconomic indicators are based on the forecasts of the «Global Insight», covering period until 2044. Growth rate and terminal values were not used in property, plant and equipment impairment models.

Management made the following key assumptions when estimating the value in use of property, plant and equipment and determining the levels of impairment provisions as at 31 December 2014: the average remaining useful lives have been estimated by management for separate cash generating units on the basis of a report by a consortium of independent appraisers as at 31 December 2006 and taking into account the latest capital investment programme of the Group in respect of information about investments, required for maintaining useful lives, confirming the relevance of the report's conclusions above, and were as follows:

Name of cash generating unit	Pre-tax discount rate, % p.a.	Average remaining useful lives, years
Kolsky branch	16,17	22
Karelsky branch	15,52	20
Nevsky branch HPS	15,52	23
Nevsky branch TPP	15,53	21
St Petersburg Heating Grid	15,48	18
Murmanskaya TPP	19,53	10

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment (continued)

However, the calculation of the recoverable amounts from cash-generating units is highly sensitive to the pre-tax discount rate and change of forecasted tariffs. If the pre-tax discount rate was 1 percent higher in the forecasted period, there would be total impairment loss of RUB 5 728 902 thousand recognised as at 31 December 2014. If the electricity and heat tariffs were 5 percent lower in the forecasted period, there would be total impairment loss of RUB 19 955 643 thousand recognised as at 31 December 2014. If increase/decrease remaining useful lives of property, plant and equipment for 5 years, change in recoverable amounts caused decrease/increase impairment provision of RUB 513 867/8 799 674 thousand as at 31 December 2014.

As at 31 December 2013 as a result of the impairment test impairment loss was recognised for Karelsky branch (reportable segment - Karelsky branch) in the amount of RUB 578 028 thousand.

In addition, as at 31 December 2013 an impairment loss was recognized in respect of construction in progress of Nevsky branch (mazut complex of TPP-17) in the amount of the difference of RUB 161 232 thousand between the estimated selling price (less the selling expenses) and the carrying value. In respect of construction in progress of Murmanskaya TPP, staying without movement for a long time, impairment loss was recognised in the amount of RUB 1 167 thousand.

Note 8. Investments in Associates

LLC «TGC Service» and «JSC Hibinskaya Heating Company» are the associates for the Group. LLC «TGC Service» specializes in repairing of the capital and service equipment of the power enterprises and also provides maintenance, support, diagnostics and technical reequipment of power industry objects. JSC Hibinskaya Heating Company» specializes in production, transportation and sales of heat energy.

Information about Group's investments in associates is presented below:

	31 December 2014	31 December 2013
Investments in LLC TGC Service	13 752	9 841
Investments in JSC HHC	413 385	432 020
Total investments	**427 137**	**441 861**

As at 31 December 2014 and 31 December 2013 the ownership interest in JSC HHC was 50%. Management of the Group believes that there is a significant influence over JSC HHC as taking into account its current Board of Directors composition there is no joint control over the entity. Therefore, the investment in JSC HHC was accounted as investment in associate.

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

Name	Total assets	Total liabilities	Revenue	Profit/ loss	% interest held	Country of incorporation
LLC TGC Service	1 591 978	1 521 111	1 801 393	54 346	26%	Russia
JSC HHC	2 766 623	1 939 852	559 538	(37 475)	50%	Russia
Total	**4 358 601**	**3 460 963**	**2 360 931**	**16 871**		

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

Name	Total assets	Total liabilities	Revenue	Profit/ loss	% interest held	Country of incorporation
LLC TGC Service	945 424	880 577	1 466 287	5 018	26%	Russia
JSC HHC	3 166 637	2 302 391	106 259	(35 462)	50%	Russia
Total	**4 112 061**	**3 182 968**	**1 572 546**	**(30 444)**		

(in thousands of Russian Roubles)

Note 8. Investments in Associates (continued)

Management could not reliably estimate the fair value of the Group's investment in shares of associates. TGC Service is a Limited Liability Company, so it doesn't issue shares. Shares of JSC Hibinskaya Heating Company are not quoted and recent trade prices are not publicly accessible. The investment is carried at acquisition cost including Group's equity in profit or loss and other comprehensive income of associates in the amount of RUB 13 752 thousand - LLC TGC Service and at cost of RUB 413 385 thousand JSC HHC (2013: RUB 9 841 thousand and RUB 432 020 thousand respectively).

Note 9. Income Taxes

Income tax expense comprises the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Current income tax charge	(399 742)	(86 147)
Deferred income tax charge	(525 707)	(1 724 786)
Effect of change in income tax rate, recorded in profit and losses	1 202 955	681 072
Total Income/(expense) tax charge, recorded in profit and losses	**277 506**	**(1 129 861)**
Movement during the year, recorded in other comprehensive income	(15 812)	(6 817)
Effect of change in income tax rate, recorded in other comprehensive income	(1 576)	-
Total Income/(expense) tax charge, recorded in other comprehensive income	**(17 388)**	**(6 817)**
Total income tax charge	**260 118**	**(1 136 678)**

The Group's companies applied the following tax rates in 2014: OJSC "TGC-1" - 17.2%, OJSC "Murmanskaya TPP" - 20%, OJSC "St Petersburg Heating Grid" - 15.55% (2013: OJSC "TGC-1" - 20%, OJSC "Murmanskaya TPP" - 20%, OJSC "St Petersburg Heating Grid" - 15.55%).

Reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2014	Year ended 31 December 2013
Profit before tax	**3 871 393**	**7 897 400**
Theoretical tax charge at the statutory tax rate of 20%	(774 279)	(1 579 480)
Tax effects of items which are non-deductible for income tax purposes	(399 742)	(238 270)
Effect of change in income tax rate	1 202 955	681 072
Effect of tax benefit applying	248 572	6 817
Total Income/(expense) tax charge, recorded in profit and losses	**277 506**	**(1 129 861)**
Other comprehensive income	**114 305**	**29 734**
Theoretical tax charge at the statutory tax rate of 20%	(22 861)	(5 947)
Effect of change in income tax rate	(1 576)	-
Effect of tax benefit applying	7 049	(870)
Total Income/(expense) tax charge, recorded in other comprehensive income	**(17 388)**	**(6 817)**
Total income tax charge	**260 118**	**(1 136 678)**

(in thousands of Russian Roubles)

Note 9. Income Taxes (continued)

Deferred income tax assets and liabilities

Differences between IFRS and Russian statutory tax calculation cause temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases.

Deferred income tax assets and liabilities were measured at the following tax rates as at 31 December 2014: OJSC «TGC-1» - 17.2%, OJSC «Murmanskaya TPP» - 20%, OJSC «St Petersburg Heating Grid» - 15.55% (as at 31 December 2013: OJSC «TGC-1» - 20%, OJSC «Murmanskaya TPP» - 20%, OJSC «St Petersburg Heating Grid» - 15.55%). Management considers the rates to be applied to the period when the assets are realised and liabilities are settled.

Since 2014, OJSC «TGC-1» applies income tax exemption in accordance to law of Saint-Petersburg from 14.07.1995 № 81-11. So, deferred income tax assets and liabilities at 31 December 2014 in respect of OJSC «TGC-1» were revaluated applying effective income tax rate 17.2%.

Since 2013, OJSC «St Petersburg Heating Grid» applies income tax exemption in accordance to law of Saint-Petersburg from 14.07.1995 № 81-11. So, deferred income tax assets and liabilities at 31 December 2013 in respect of OJSC «St Petersburg Heating Grid» were revaluated applying effective income tax rate 15.55%.

Effect of the revaluation is presented in the tables below.

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

Deferred income tax liabilities

	31 December 2014	Recognised in profit or losses	Effect of change in income tax rate, recorded in other compre-hensive income	Effect of change in income tax rate, recorded in profit and losses	Movement during the year, recorded in other compre-hensive income	31 December 2013
Property, plant and equipment	(10 035 083)	(283 276)	-	1 195 483	-	(10 947 290)
Investments	-	(261)	-	(42)	-	303
Trade and other receivables	(382 193)	282 895	-	108 200	-	(773 288)
Trade and other payables	36 157	(7 391)	-	(6 415)	-	49 963
Pension liabilities	114 605	(5 020)	(1 576)	(17 984)	(14 421)	153 606
Tax loss carried forward	-	(448 313)	-	(72 830)	-	521 143
Other	8 290	(911)	-	(3 457)	-	12 658
Total deferred income tax liability	**(10 258 224)**	**(462 277)**	**(1 576)**	**1 202 955**	**(14 421)**	**(10 982 905)**

(in thousands of Russian Roubles)

Note 9. Income Taxes (continued)

	31 December 2013	Recognised in profit or losses	Effect of change in income tax rate, recorded other compre-hensive income	Effect of change in income tax rate, recorded in profit and losses	Recognised in Equity	31 December 2012
Property, plant and equipment	(10 947 290)	(1 661 427)	-	694 699	-	(9 980 562)
Investments	303	(1 863)	-	-	-	2 166
Trade and other receivables	(773 288)	(185 098)	-	(276)	-	(587 914)
Trade and other payables	49 963	(21 067)	-	(1 179)	-	72 209
Pension liabilities	153 606	(3 852)		(93)	(2 226)	159 777
Tax loss carried forward	521 143	313 785	-	-	-	207 358
Other	12 658	(675)	-	(12 079)	-	25 412
Total deferred income tax liability	**(10 982 905)**	**(1 560 197)**	**-**	**681 072**	**(2 226)**	**(10 101 554)**

	Deferred income tax assets			
	31 December 2014	Recognised in profit or losses	Recognised in other compre-hensive income	31 December 2013
Property, plant and equipment	(2 633)	411	-	(3 044)
Tax loss carried forward	73 236	(88 206)	-	161 442
Trade and other receivables	214 152	25 693	-	188 459
Trade and other payables	6 987	10	-	6 977
Pension liabilities	10 575	(1 325)	(1 391)	13 291
Other	15	(13)	-	28
Total deferred income tax assets	**302 332**	**(63 430)**	**(1 391)**	**367 153**

	31 December 2013	Recognised in profit or losses	Recognised in other comprehensive income	31 December 2012
Property, plant and equipment	(3 044)	(102)	-	(2 942)
Tax loss carried forward	161 442	(243 305)	-	404 747
Trade and other receivables	188 459	79 732	-	108 727
Trade and other payables	6 977	(1 703)	-	8 680
Pension liabilities	13 291	869	(4 591)	17 013
Other	28	(80)	-	108
Total deferred income tax assets	**367 153**	**(164 589)**	**(4 591)**	**536 333**

Note 10. Other Non-Current Assets

	31 December 2014	31 December 2013
Long-term receivables, net of provision for impairment of RUB 70 143 thousand (31 December 2013: RUB 104 789 thousand) (non-interest bearing)	369 044	188 145
Loan issued	-	11 757
Total other non-current assets	**369 044**	**199 902**

(in thousands of Russian Roubles)

Note 11. Cash and Cash Equivalents

	31 December 2014	31 December 2013
Cash in bank and in hand in RUB	2 031 544	167 016
Foreign currency accounts in EUR	198 855	75 989
Deposit in RUB	35 000	-
Total cash and cash equivalents	**2 265 399**	**243 005**

Note 12. Short-term Investments

	31 December 2014	31 December 2013
Loan issued	30 073	16 800
Total short-term investments	**30 073**	**16 800**

Note 13. Non-current Assets Held for Sale

As at 31 December 2014 the property, plant and equipment with a total net book value amounting to RUB 86 651 thousand were classified as assets held for sale (31 December 2013: RUB 58 325 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

31 December 2014	Sale	Classification as assets held for sale	31 December 2013
86 651	5 174	33 500	58 325

31 December 2013	Sale	Classification as assets held for sale	31 December 2012
58 325	10 397	42 017	26 705

Note 14. Trade and other receivables

	31 December 2014	31 December 2013
Trade receivables, net of provision for impairment of RUB 4 866 086 (31 December 2013: RUB 2 655 749 thousand)	13 626 794	14 228 323
Other receivables, net of provision for impairment of RUB 18 308 (31 December 2013: RUB 14 220 thousand)	326 972	518 423
Total financial receivables	**13 953 766**	**14 746 746**
Value-added tax receivables	217 454	489 853
Advances to suppliers	830 148	390 490
Other taxes receivable	8 518	238 949
Total trade and other receivables	**15 009 886**	**15 866 038**

Total financial receivables by customer type are presented in the table below:

	31 December 2014	31 December 2013
Ultimate domestic customers	10 104 126	10 130 707
Wholesale customers	2 799 708	3 595 059
Free market	905 352	1 015 170
Export customers	144 580	5 810
Total	**13 953 766**	**14 746 746**

(in thousands of Russian Roubles)

Note 14. Trade and other receivables (continued)

Total financial receivables on a contract basis as at the reporting date are presented in the table below:

	Fully performing	Past due but not impaired	Impaired
Total financial receivables as at 31 December 2014	8 451 279	5 871 533	4 954 537
Total financial receivables as at 31 December 2013	8 279 271	6 667 377	2 774 758

Fully performing trade receivables involve a number of independent customers who have no recent history of default. Individually insignificant end-user customers make up the majority of performing trade receivables; therefore the credit risk is widely spread.

Past due but not impaired financial receivables have the following ageing structure:

	31 December 2014	31 December 2013
Up to 45 days	3 154 827	3 303 058
From 45 to 90 days	463 570	514 112
More than 90 days	2 253 136	2 850 207
Total	**5 871 533**	**6 667 377**

Impaired financial receivables represent overdue accounts receivables from customers which are not expected to be settled. Reversal relates to previously impaired financial receivables which have been collected in current year or expected to be collected in 2015.

Movements in impairment provision for financial receivables are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Provision for impairment as at 1 January	**2 774 758**	**1 774 328**
Impairment loss recognised during the period	2 476 320	1 473 589
Impairment loss reversed during the period	(97 007)	(356 510)
Consumed	(199 534)	(116 649)
Provision for impairment as at 31 December	**4 954 537**	**2 774 758**
Account receivable directly written-off to profit and loss	25 131	19 487

Increase of impairment provision for financial receivables in 2014 caused by deterioration of collectability of ultimate domestic customers and wholesale customers, including the negative trends in economic situation in Russian Federation (Note 2).

Note 15. Inventories

	31 December 2014	31 December 2013
Fuel	2 000 746	1 918 934
Spare parts	176 145	195 428
Raw materials and other supplies	469 915	494 018
Total inventories	**2 646 806**	**2 608 380**

Note 16. Share capital

Share capital

The Group's share capital as at 31 December 2014 and as at 31 December 2013 was RUB 38 543 414 thousand comprising 3 854 341 416 571 ordinary shares with a par value of RUB 0.01. All shares authorised are issued and fully paid.

Share premium

Share premium represents the excess of contributions received over the nominal value of shares issued.

Merger reserve

As at 31 December 2014 and as at 31 December 2013 the merger reserve amounted to RUB 6 086 949 thousand.

Dividends

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared under Russian Accounting Rules. The Company's statutory accounting reports form the basis for profit distribution and other appropriations. Russian legislation identifies net profit as the basis for distribution.

For 2014, the current year statutory net profit for the Company, as reported in the published annual statutory reporting forms, was RUB 3 475 121 thousand (2013: RUB 3 218 147 thousand) and the closing balance of the accumulated profit including the current year statutory net profit totaled RUB 9 745 841 thousand (31 December 2013: RUB 7 046 864 thousand). However, this legislation and other statutory laws and regulations are open to different legal interpretations and, accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

At the General Shareholders' Meeting held on 16 June 2014, the decision was made to pay a total of RUB 643 629 thousand in annual dividends for 2013 (2013: RUB 469 478 thousand for 2012).

(in thousands of Russian Roubles)

Note 17. Long-term Borrowings

	31 December 2014	31 December 2013
Bank borrowings and bonds issued	21 260 080	21 070 249
Total long-term borrowings	**21 260 080**	**21 070 249**

	Currency	Contractual interest rate	Maturity	31 December 2014		31 December 2013
				Carriyng amounts	Fair values	
Long-term bonds (01)	RUB	7.6%	2014	-	-	409 998
Long-term bonds (02)	RUB	7.25%	2014	-	-	125 780
Long-term bonds (03)	RUB	8%	2021	2 003 500	1 642 388	2 003 100
Long-term bonds (04)	RUB	8%	2022	2 056 120	1 626 207	2 056 380
Gazprom	RUB	8%	2016	10 000 000	9 125 711	10 000 000
Bank Rossiya		7.5-12.5%	2017	5 000 000	4 881 875	-
Sberbank RF	RUB	7.4-8.95%	2015-2016	2 473 632	2 406 420	4 203 545
Gazprom Energoholding		8.5-11%	2015	2 000 000	1 987 361	2 014 438
NORDIC Investment Bank	RUB	EURIBOR + 3%	2019	1 588 011	1 588 011	1 359 741
AKB ROSBANK	RUB	7.4-21%	2016	1 345 253	1 345 253	3 806 931
VTB	RUB	7.2-8.85%	2015-2016	897 785	853 645	1 605 877
VBRR	RUB	8.15-11.5%	2015	186 789	182 523	186 374
Nordic Environment Finance Corporation	EUR	EURIBOR + 2%	2015	17 199	17 199	33 962
Alfabank	RUB	7.25-8.87%	2014	-	-	700 852
Bank Saint-Petersburg	RUB	7.2-8.4%	2014	-	-	700 000
Alfabank	EUR	EURIBOR + 3.5%	2014	-	-	12 274
				27 568 289	**25 656 593**	**29 219 252**
Less: current portion						
Long-term bonds (01)	RUB	7.6%	2014	-	-	(409 998)
Long-term bonds (02)	RUB	7.25%	2014	-	-	(125 780)
Long-term bonds (03)	RUB	8%	2015	(3 500)	(3 500)	(3 100)
Long-term bonds (04)	RUB	8%	2015	(56 120)	(56 120)	(56 380)
Sberbank RF	RUB	7.4-8.95%	2015	(2 163 417)	(2 138 434)	(2 680 802)
AKB ROSBANK	RUB	7.4-21%	2015	(1 253 081)	(1 253 081)	(2 388 942)
VTB	RUB	7.2-8.85%	2015	(301 803)	(299 000)	(710 462)
Alfabank	RUB	7.25-8.87%	2014	-	-	(700 852)
Bank Saint-Petersburg	RUB	7.2-8.4%	2014	-	-	(700 000)
NORDIC Investment Bank	EUR	EURIBOR + 3%	2015	(326 300)	(326 300)	(321 974)
Nordic Environment Finance Corporation	EUR	EURIBOR + 2%	2015	(17 199)	(17 199)	(22 720)
Gazprom Energoholding	RUB	8.5-11%	2015	(2 000 000)	(1 987 361)	(14 438)
Alfabank	EUR	EURIBOR + 3.5%	2014	-	-	(12 274)
VBRR	RUB	8.15-11.5%	2015	(186 789)	(182 523)	(1 281)
Total long-term bank borrowings and bonds issued				**21 260 080**	**19 393 075**	**21 070 249**

As at 31 December 2013 the fair value of long-term borrowings equaled their carrying amount, as the impact of discounting was not significant.

The exposure of the Group's borrowings to interest rate changes at the end of the reporting period is disclosed in Note 31.

(in thousands of Russian Roubles)

Note 17. Long-term Borrowings (continued)

Compliance with covenants

Under long-term borrowings facility agreements, the Group is required to comply with certain financial and non-financial covenants. The most significant and most important of these being:

- to maintain particular ratios, i.e. the EBITDA to Finance Charges, the total debt to equity and the Current Ratio;
- to maintain certain liquidity and debt-to-assets ratio.

If any of these covenants are breached, the repayment can be altered by the respective lender, up to immediate repayment. There were no breaches of covenants in 2014 and 2013.

Note 18. Other Non-Current Liabilities

	31 December 2014	31 December 2013
Long-term accounts payable	192 644	139 958
Total other non-current liabilities	**192 644**	**139 958**

Other non-current liabilities are mainly presented by payables for installation of heating meters, paid by equal interests during five years.

Note 19. Post-Employment Benefits Obligations

The Group operates defined benefit and defined contribution pension plans. The Group has a contract with the “Non-state pension fund of the electrical energy industry” (“NPFE”) for some of these pension plans and contracts with NPF “Gazfond” (“Gazfond”).The Group runs the other plans independently of external pension funds. Defined contribution pension plans are considered immaterial for disclosure.

Through the “Gazfond”, the defined benefit pension plan provides for the payment, on retirement, of monthly pension benefits. The Group makes annual contributions to the solidarity account in the non-state pension fund. Contribution size is defined by the Group’s budget and is considered to be at least enough to finance running pension benefits. No part of this contribution is recognised as plan asset as far as the Group can recall this money. Pension benefits are paid from the solidarity account on a “pay-as-you-go” basis.

Through the “NPFE”, the defined benefit pension plan provides for the payment, on retirement, of monthly pension benefits. Upon retirement the pension liability of the Group is completely settled by contributions to individual account of each individual participant. Contribution size is defined by the Group’s budget and is considered to be at least enough to finance running pension benefits. There are no accumulations on the individual accounts of active employees of the plan and therefore there are no plan assets.

In addition to the NPFE and Gazfond pension plan, the Group provides defined-benefit financial support to old-age pensioners, who have completed certain service periods with the Group, and other post-employment benefits such as lump-sum payments on retirement, lump-sum financial aid, etc.

As at 31 December 2014 the Group engaged an independent actuarial company to evaluate its pension liabilities.

The tables below provide information about the benefit obligations, plan assets and actuarial estimates used for the year ended 31 December 2014 and 31 December 2013.

(in thousands of Russian Roubles)

Note 19. Post-Employment Benefits Obligations (continued)

The principal actuarial assumptions are as follows:

Principal actuarial assumptions (%):	**31 December 2014**	**31 December 2013**
Discount rate for benefits at accumulation phase	13%	7.9%
Indexation of fixed benefits	7%	4.8%
Life expectancy at age of 55 (women), years	25.4	25.4
Life expectancy at age 60 (men), years	15.6	15.6
Personnel rotation	Curve in depend on age	Curve in depend on age
Sample points: Men		
Age 30 years	9%	9%
Age 40 years	5%	5%
Age 50 years	3%	3%
Sample points: Women		
Age 30 years	8%	8%
Age 40 years	5%	5%
Age 50 years	3.5%	3.5%

Changes in the present value of the Group's defined benefit obligations are as follows:

	Year ended 31 December 2014	**Year ended 31 December 2013**
Benefit obligations as at the beginning of the period	**854 296**	**883 945**
Current service cost	28 336	37 054
Interest cost	65 825	60 699
Past service cost	(18 956)	(3 200)
(Gain)/loss from remeasurements of post-employment benefit obligations	(134 360)	(53 523)
Actuarial (gain)/losses – changes in financial assumptions	(170 430)	(53 776)
Actuarial (gain)/losses – changes in demographic assumptions	-	(13 531)
Actuarial (gain)/losses – adjustments	36 070	13 784
Program benefits	(70 475)	(70 679)
Benefit obligations as at the end of the period	**724 666**	**854 296**

Amounts recognised in profit or loss in the Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	Year ended 31 December 2014	**Year ended 31 December 2013**
Cost of service:	9 380	33 854
Current service cost	28 336	37 054
Past service cost	(18 956)	(3 200)
Interest expenses, net	65 825	60 699
(Gain)/loss from remeasurements of post-employment benefit obligations	(20 054)	(23 789)
Actuarial (gain)/losses – changes in financial assumptions	(22 139)	(13 335)
Actuarial (gain)/losses – changes in demographic assumptions	-	2 843
Actuarial (gain)/losses – adjustments	2 085	(13 297)
Total pension expenses, net	**55 151**	**70 764**

(in thousands of Russian Roubles)

Note 19. Post-Employment Benefits Obligations (continued)

Amounts recognised in other comprehensive income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, that will not be reclassified to profit or loss:

	Year ended 31 December 2014	Year ended 31 December 2013
(Gain)/loss from remeasurements of post-employment benefit obligations	(114 305)	(29 734)
Actuarial (gain)/losses – changes in financial assumptions	(148 290)	(40 441)
Actuarial (gain)/losses – changes in demographic assumptions	-	(16 373)
Actuarial (gain)/losses – adjustments	33 985	27 080
Total comprehensive income	**(114 305)**	**(29 734)**

Best estimate of contributions expected to be paid to the plan during the annual period beginning after 31 December 2015 equals to RUB 73 832 thousands.

Information about estimated maturity thresholds of the defined benefit obligations is presented below:

	Not later than one year	Later than one year and not later than two years	Later than one year and not later than five years	Later than five years	Total
NPO	27 050	27 383	49 280	74 929	178 642
Lump sum benefits	17 327	17 063	31 651	53 895	119 936
Monthly benefits	6 773	6 033	20 304	144 860	177 970
Other benefits	22 682	24 067	50 413	150 956	248 118
Total	**73 832**	**74 546**	**151 648**	**424 640**	**724 666**

Sensitivity analysis results of the defined benefit obligations as at 31 December 2014 is presented below. Sensitivity analysis was calculated for four parameters: discount rate, indexed fixed benefits, life expectancy and personnel rotation.

	Decrease	Calculated rate	Increase
Discount rate	12%	13%	14%
absolute value	775 263	724 666	680 562
change in obligations (%)	7%	-	-6.1%
Indexation of fixed benefits	6%	7%	8%
absolute value	677 850	724 666	777 785
change in obligations (%)	-6.5%	-	7.3%

Life expectancy	Increase of life expectancy for 10% in each age	Calculated rate	Decrease of life expectancy for 10% in each age
55 women	24.5	25.4	26.3
60 men	14.8	15.6	16.6
absolute value	712 488	724 666	737 900
change in obligations (%)	-1.7%	-	1.8%

Personnel rotation	Increase of personnel rotation for 1%	Calculated rate	Decrease of personnel rotation for 1%
absolute value	696 889	724 666	755 532
change in obligations (%)	-3,8%	-	4,3%

(in thousands of Russian Roubles)

Note 20. Short-Term Borrowings

	31 December 2014	31 December 2013
Bank borrowings and bonds issued	8 692 944	11 678 565
Total short-term borrowings	**8 692 944**	**11 678 565**

Name of lender	Currency	Contractual interest rate	31 December 2014		31 December 2013
			Carrying amounts	Fair values	
Gazprombank	RUB	9.5-20%	1 460 317	1 460 317	500 973
Gazprom Energoholding	RUB	10.5-12,5%	744 564	728 381	-
VTB	RUB	10.9-14.73%	179 854	174 438	339 687
MDM Bank	RUB	7.25%	-	-	1 210 964
Bank Rossiya	RUB	7.5%	-	-	1 000 000
Vozrozhdenie	RUB	11.9%	-	-	100 000
Alfabank	RUB	6%	-	-	377 938
Current portion of long-term borrowings:					
Long-term bonds (01)	RUB	7.6%	-	-	409 998
Long-term bonds (02)	RUB	7.25%	-	-	125 780
Long-term bonds (03)	RUB	8%	3 500	3 500	3 100
Long-term bonds (04)	RUB	8%	56 120	56 120	56 380
Sberbank RF	RUB	7.4-8.95%	2 163 417	2 138 434	2 680 802
Gazprom Energoholding	RUB	8.5-11%	2 000 000	1 987 361	14 438
AKB ROSBANK	RUB	7.4-21%	1 253 081	1 253 081	2 388 942
NORDIC Investment Bank	EUR	EURIBOR + 3%	326 300	326 300	321 974
VTB	RUB	7.2-8.85%	301 803	299 000	710 462
VBRR	RUB	8.15-11.5%	186 789	182 523	1 281
Nordic Environment Finance Corporation	EUR	EURIBOR + 2%	17 199	17 199	22 720
Alfabank	RUB	7.25-8.87%	-	-	700 852
Bank Saint-Petersburg	RUB	7.2-8.4%	-	-	700 000
Alfabank	EUR	EURIBOR + 3.5%	-	-	12 274
Total bank borrowings and bonds issued			**8 692 944**	**8 626 654**	**11 678 565**

As at 31 December 2013 the fair value of current borrowings equaled their carrying amount, as the impact of discounting was not significant.

Note 21. Trade and other payables

	31 December 2014	31 December 2013
Trade accounts payable	2 947 505	2 926 698
Accounts payable for capital construction	2 142 870	2 543 069
Accrued liabilities and other payables	281 491	434 660
Total financial payables	**5 371 866**	**5 904 427**
Advances from customers	1 143 643	1 115 278
Current employee benefits	499 822	537 108
Total trade and other payables	**7 015 331**	**7 556 813**

(in thousands of Russian Roubles)

Note 22. Other Taxes Payable

	31 December 2014	31 December 2013
VAT payable	1 149 947	900 900
Employee taxes	103 361	112 214
Property tax	122 698	98 543
Personal Income Tax	54 884	50 486
Water usage tax	12 323	9 717
Other taxes	9 725	7 435
Total taxes payable	**1 452 938**	**1 179 295**

As at 31 December 2014 and as at 31 December 2013 the Group had no past due tax liabilities.

Note 23. Other Sales

	31 December 2014	31 December 2013
Connection of customers to heating network	727 087	745 236
Revenue from transit of rail cars	78 921	66 301
Maintenance of electrical facilities	61 645	42 475
Handling of heating oil	42 712	35 379
Installation of heating meters	2 149	19 732
Other	194 026	172 757
Total other sales	**1 106 540**	**1 081 880**

Note 24. Government Grants

In accordance to Murmansk region law № 919-01-3MO "About budget process in Murmansk region" Group received a grant in 2014 for the compensation of income in relation to providing heating services (sales to consummers of heat) per tariffs that don't cover expenses from Murmansk Region budget for a total amount of RUB 561 864 thousand (in 2013 – RUB 437 464 thousand).

Note 25. Operating Expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Fuel	28 513 546	29 537 371
Employee benefits	6 811 292	6 793 806
Depreciation of property, plant and equipment	6 573 971	6 224 731
Electricity, capacity and heat purchases	5 505 535	5 417 997
Repairs and maintenance	2 954 014	2 605 544
Water usage expenses	2 296 253	2 235 706
Provision for impairment of accounts receivable	2 404 443	1 136 566
Heat distribution	1 246 637	645 621
Taxes other than income tax	1 082 272	953 938
Fees of electricity market operators	835 700	817 995
Other materials	721 828	747 862
Security expenses	474 460	435 906
IT services	319 727	332 518
Operating lease expenses	297 681	328 711
Insurance cost	283 791	252 816
Telecommunication expenses	234 087	244 733
Fees of electricity market operators	200 526	214 137
Amortisation of intangible assets	132 893	177 669
Consulting, legal and audit expenses	126 448	62 508
Amortisation of investment property	6 028	5 091
Gain on disposal of property, plant and equipment	(1 589 916)	(204 746)
Other operating expenses	1 229 518	1 154 106
Total operating expenses	**60 660 734**	**60 120 586**

(in thousands of Russian Roubles)

Note 25. Operating Expenses (continued)

Profit from disposal of property, plant and equipment includes profit from sale of property, plant and equipment of Ondskaya HPS in the amount of RUB 1 418 304 thousand (Note 7).

Employee benefits are generally presented by wages and salaries. Social insurance contributions are included in "Employee benefits" in the amount of RUB 1 461 566 thousand (in 2013 – in the amount of RUB 1 387 229 thousand).

In 2014 amount of RUB 422 010 thousand of purchases and sales was settled by mutual cancellation (in 2013 – RUB 486 750 thousand).

Note 26. Other Operating Income

	Year ended 31 December 2014	Year ended 31 December 2013
Fines and penalties	231 779	200 158
Operating lease income	156 530	146 058
Insurance	38 964	58 135
Gain on sale of inventory	11 451	9 503
Written-off trade and other payables	26 446	-
Other operating income	86 595	47 665
Total other operating income	**551 765**	**461 519**

Note 27. Finance Income and Finance Costs

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	112 963	42 146
Effect of discounting of financial instruments	3 670	48 699
Finance income	**116 633**	**90 845**
Interest expense	(2 044 167)	(1 730 940)
Exchange differences (net)	(553 278)	(237 815)
Effect of discounting of financial instruments	(144 026)	(115 686)
Finance costs	**(2 741 471)**	**(2 084 441)**

Note 28. Earnings per Share

	Year ended 31 December 2014	Year ended 31 December 2013
Profit attributable to owners of the Company	3 889 674	6 323 685
Weighted average number of ordinary shares issued (thousands)	3 854 341 417	3 854 341 417
Earnings per ordinary share attributable to the owners of the Company after tax – basic and diluted – in Russian Roubles	**0.0010**	**0.0016**

Note 29. Commitments

Sales commitments

The Group entities sell electricity, capacity and heat in thewholesale market's regulated and free trading sectors. Regulated sector contracts are primarily signed with trading companies. Tariffs for electricity, capacity and heat sold under regulated delivery contracts are set by the FTS. Electricity can be bought in the free trading sector under contracts with CJSC FSC in order to fulfil obligations under regulated contracts.

(in thousands of Russian Roubles)

Note 29. Commitments (continued)

Long-term contracts with CJSC FSC and short-term bilateral contracts with market entities were concluded for electricity, capacity and heat sales (not covered by regulated contracts) in the free trading market.

The Group also concluded export contracts with Fortum Power and Heat OY and RAO Nordic Oy. The Group's sales commitments under these contracts, as at 31 December 2014, were: 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy (as at 31 December 2013 – 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy).

Fuel commitments

The Group has also concluded a number of fuel supply contracts. The main gas supplier is CJSC Gazprom Mezhregiongaz St Petersburg (a state controlled subsidiary of Gazprom Group) and the main coal supplier is OJSC Plant Polymer. The prices for natural gas and coal set in these contracts are mainly determined on the basis of tariffs established by the FTS, published inflation rates and current market prices.

Contractual capital commitments

As at 31 December 2014, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment in the amount of RUB 8 188 601 thousand (31 December 2013: RUB 10 194 239 thousand).

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease

The Group leases a number of land plots owned by local authorities under operating leases. Land lease commitments are determined by lease agreements and current cadastral values and are as follows:

	31 December 2014	31 December 2013
Not later than one year	85 485	97 507
Later than one year and not later than five years	339 613	390 028
Later than five years	2 323 368	2 167 716
Total operating lease	**2 748 466**	**2 655 251**

Note 30. Contingencies

Political environment

The Group's operations and earnings continue, intermittently and to varying degrees, to be affected by ongoing political, legislative, fiscal and regulatory developments (including those related to environmental protection) in Russia.

Insurance

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance protection common in developed markets are not yet generally available.

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

Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain operating assets could have a material adverse effect on the Group's operations and financial position.

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. It is management's view that there are no current legal proceedings or other claims outstanding and not provided for which, on their conclusion, will have an adverse material effect on the Group's financial standing.

Note 30. Contingencies (continued)

Tax legislation

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

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

Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As at 31 December 2014 and 2013 the Group estimates that it has no potential liabilities from exposure to probable or possible tax risks.

In addition, tax and other legislation do not specifically address all the aspects of the Group's reorganisation related to the electricity and utilities sector reforms. Therefore, the various interpretations, transactions and resolutions that were part of the reorganisation and reform process may give rise to tax/legal challenges.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately.

The Group owns the ash dumps on the territory of Russian Federation. In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" the Group has a liability for a land reclamation in respect of the lands used as the ash dumps. The Group's management considers that the liability cannot be reliably estimated because there are no plans on transferring the station on other types of fuel resulting in impossibility of definition the terms of ash dumps liquidation and land reclamation works. The Group's management also considers that estimated liability for the land reclamation does not influence significantly the Group's Statements of Financial Position, Profit or Loss and Other Comprehensive Income and Cash Flows. Management believes that there are no other legal or contractual obligations related to decommissioning or other disposal of assets.

Potential liabilities might arise as a result of changes in legislation and regulation, or as a result of civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate, under existing legislation, management believes that there are no significant liabilities relating to environmental damage.

(in thousands of Russian Roubles)

Note 31. Financial Risk Management

Within the Group, the risk management function is carried out with regard to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure remains within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Financial assets, which potentially subject the Group to credit risk exposure, consist principally of trade receivables.

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

Cash transactions are conducted through high-credit-quality financial institutions. Cash is placed in financial institutions, which are considered at time of deposit to be at minimal risk of default.

The table below shows the rating of and balances with major banks at the reporting dates:

	Rating agency	National scale ratings	Long-term RDE* in foreign currency	31 December 2014	31 December 2013
Cash at bank and cash equivalents					
Sberbank RF	Fitch	AAA (rus)	BBB	209 726	830
Alfabank	Fitch	AA+ (rus)	BBB-	111	2 237
VTB	Standard & Poor's	ru AAA	BBB-	45 073	23 474
Bank Rossiya	Expert RA	A++	-	2 003 941	212 070
Gazprombank	Fitch	AA+(rus)	BBB-	3 845	1 488
Other	-	-	-	2 703	2 906
Total cash at bank and cash equivalents				**2 265 399**	**243 005**

** Rating of default of the emitent*

At the reporting date there were no significant credit risk concentrations. The maximum exposure to credit risk at the reporting date without taking account of any collateral held is as follows:

	31 December 2014	31 December 2013
Cash and cash equivalents (Note 11)	2 265 399	243 005
Short - term investments (Note 12)	30 073	16 800
Total short-term financial receivables (Note 14)	13 953 766	14 746 746
Total long-term financial receivables (Note 10)	369 044	199 902
Total	**16 618 282**	**15 206 453**

The Group controls the levels of credit risk it takes on by limiting on the amount of risk accepted in relation to individual counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Market risk

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

Sensitivities to the market risks detailed below are based on a change in one factor while all other factors remain constant. In practice this is unlikely to occur and there may be correlations between changes in some factors– such as, for example, changes in interest rate and foreign currency rates.

Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates in its financial position and cash flows. As at 31 December 2014, the Group had the following currency positions:

	RUB	USD	EUR	Total
Monetary financial assets				
Cash and cash equivalents	2 066 544	-	198 855	2 265 399
Short - term investments	30 073	-	-	30 073
Total short-term financial receivables	13 790 979	18 210	144 580	13 953 769
Total long-term financial receivables	369 044	-	-	369 044
Total financial assets	**16 256 640**	**18 210**	**343 435**	**16 618 285**
Monetary financial liabilities				
Long-term borrowings	(19 998 369)	-	(1 261 711)	(21 260 080)
Short-term borrowings	(8 349 445)	-	(343 499)	(8 692 944)
Total other financial liabilities	(5 564 510)	-	-	(5 564 510)
Total financial liabilities	**(33 912 324)**	**-**	**(1 605 210)**	**(35 517 534)**
Net balance sheet position	**(17 655 684)**	**18 210**	**(1 261 775)**	**(18 899 249)**

As at 31 December 2013, the Group had the following currency positions:

	RUB	USD	EUR	Total
Monetary financial assets				
Cash and cash equivalents	167 016	-	75 989	243 005
Short - term investments	16 800	-	-	16 800
Total short-term financial receivables	14 722 726	18 210	5 810	14 746 746
Total long-term financial receivables	199 902	-	-	199 902
Total financial assets	**15 106 444**	**18 210**	**81 799**	**15 206 453**
Monetary financial liabilities				
Long-term borrowings	(20 021 240)	-	(1 049 009)	(21 070 249)
Short-term borrowings	(11 321 597)	-	(356 968)	(11 678 565)
Total other financial liabilities	(6 044 386)	-	-	(6 044 386)
Total financial liabilities	**(37 387 223)**	**-**	**(1 405 977)**	**(38 793 200)**
Net balance sheet position	**(22 280 779)**	**18 210**	**(1 324 178)**	**(23 586 747)**

As at 31 December 2014, if the Russian Rouble had weakened/strengthened by 30% (2013: 20%) against the EURO with all other variables remaining constant, the year's profit would have been RUB 378 532 thousand (2012: RUB 264 834 thousand) lower/higher.

As at 31 December 2014, if the Russian Rouble had weakened/strengthened by 30% (2013: 20%) against the US Dollar with all other variables remaining constant, the year's profit would have been RUB 5 463 thousand (2013: RUB 3 642 thousand) lower/higher.

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Since the Group does not hold any financial instruments attributed to equity, the effect of changes to the interest rate on equity would be the same as that on post-tax profit.

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 liquidity risk management includes maintaining sufficient cash to fund operations and the investment programme, and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities, dividing them into relevant maturity groupings based on the remaining period to the contractual maturity datein the consolidated statement of financial position and the contractual undiscounted amounts.

		Contractual cash flows				
As at 31 December 2014	**Carrying amount**	**Total**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**
Long-term and short-term bonds	16 804 184	21 253 090	1 564	2 767 777	1 250 840	17 232 909
Long-term and short-term loans	13 148 840	15 683 013	1 228 556	996 273	4 990 897	8 467 287
Total other financial liabilities	5 564 510	5 616 969	3 490 191	528 794	1 352 881	245 103
Total financial liabilities	**35 517 534**	**42 553 072**	**4 720 311**	**4 292 844**	**7 594 618**	**25 945 299**

		Contractual cash flows				
As at 31 December 2013	**Carrying amount**	**Total**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**
Long-term and short-term bonds	16 987 634	21 298 075	14 438	1 117 998	1 087 500	19 078 139
Long-term and short-term loans	15 761 180	16 533 287	3 601 932	1 503 103	6 122 305	5 305 947
Total other financial liabilities	6 044 386	6 082 215	3 700 346	643 026	1 561 055	177 788
Total financial liabilities	**38 793 200**	**43 913 577**	**7 316 716**	**3 264 127**	**8 770 860**	**24 561 874**

Interest rate risk

The Group's operating profits and cash flows from operating activity are largely independent of changes in market interest rates. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As 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		
Long-term loans and borrowings	15 998 369	16 021 240
Short-term loans and borrowings	8 289 825	11 262 117
Variable rate instruments		
Long-term loans and borrowings	5 261 711	5 049 009
Short-term loans and borrowings	403 119	416 448
Total financial instruments	**29 953 024**	**32 748 814**

Note 31. Financial Risk Management (continued)

Interest rate risk (continued)

The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

A general increase/decrease of seven percent (as at 31 December 2013 one percent) in interest rates would have decreased/increased the Group's profit after income tax for the year ended 31 December 2014 by approximately RUB 380 983 thousand (for the year ended 31 December 2013: RUB 40 429 thousand). The effect on equity (retained earnings) would be the same as on post-tax profit.

Fair value sensitivity analysis for fixed rate instruments

In 2014 the Group did not hold any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group did not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date would not affect profit or loss.

Fair values

Management believes that the fair values of the Group's other financial assets and liabilities approximate their carrying values as of both year ends, except fair value of borrowings as at 31 December 2014 (Note 17), and determines the appropriate level of the financial assets and liabilities using a three–tiered hierarchy on the basis of the lowest level input that is significant in fair value measurements.

Capital management

The Group's companies complies with the capital requirements for the joint-stock companies set by the legislation of the Russian Federation:

- share capital cannot be less than 1000 sizes of the minimum wage on the date of registration of the company;
- in case exceeding the amount of the share capital over the net assets, calculated based on the local legislation, the share capital should be decreased to the value of net assets;
- if a minimum level of share capital exceeds the amount of net assets, calculated based on the local legislation, the company should be liquidated.

The Group's capital management objectives are to safeguard its ability to continue as a going concern in order to provide returns to equity holders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares. The amount of capital defined as equity attributable to shareholders that the Group managed as of 31 December 2014 was RUB 92 111 978 thousand (2013: RUB 88 774 083 thousand). Capital management is linked to maintaining certain financial ratios to comply with bank-imposed covenants (Notes 17 and 20).

Note 32. Segment Information

The Group generates its revenues from electricity and heat power generation in one geographical segment: the Russian Federation (Note 3). The Group's major customers are regional electricity wholesalers. The Group has no single customer that accounts for 10% or more of its total revenue.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by Company's Management Board.

Note 32. Segment Information (continued)

The Group's primary activity is producing electricity and heatpower and capacity. The technology of electricity and heatpower production does not allow the segregation of electricity and heatpower segments.

The Group's segments are strategic business units that focus on different customers. They are managed separately due to significant decentralisation and the distances that separate Company branches. The Group uses six primary reportable segments: TPP of Nevsky branch, HPS of Nevsky branch, St. Petersburg Heating Grid, Kolsky branch, Karelsky branch, Murmanskaya TPP. All reportable segments are located within the Russian Federation. In evaluating segment results and allocating the Group's economic resources the Management Board uses the financial information provided below prepared in accordance with Russian Accounting Standards (RAS). Differences between the above-mentioned financial indicators analysed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAS. The main differences relate to the respective carrying values of property, plant and equipment.

(in thousands of Russian Roubles)

Note 32. Segment Information (continued)

Year ended 31 December 2014	TPP of Nevsky branch	HPS of Nevsky branch	St. Petersburg Heating Grid	Kolsky branch	Karelsky branch	Murmanskaya TPP	Unallocated segments	Total segments	Eliminations	Adjustments	Total operating segments
Revenue:	40 135 923	3 706 026	6 972 721	8 891 223	5 311 900	5 314 163	6 410 491	**77 459 800**	(7 900 712)	(562 875)	**68 996 213**
including export	-	93 342	-	624 011	-	-	-	**717 353**	-	-	**717 353**
Depreciation of property, plant, equipment	6 374 452	366 811	2 167 666	551 154	366 979	39 607	14 472	**9 881 141**	-	(3 307 170)	**6 573 971**
Reportable segment profit / (loss)	1 132 148	2 513 796	421 555	3 371 528	3 061 707	117 813	(6 465 759)	**4 152 788**	(200 582)	(80 813)	**3 871 393**
Other material non-cash items:											
Impairment loss recognized	-	-	-	-	(2 952 877)	-	-	**(2 952 877)**	-	-	**(2 952 877)**

Year ended 31 December 2013	TPP of Nevsky branch	HPS of Nevsky branch	St Petersburg Heating Grid	Kolsky branch	Karelsky branch	Murmanskaya TPP	Unallocated segments	Total segments	Eliminations	Adjustments	Total operating segments
Revenue:	41 263 602	4 159 824	6 756 105	10 204 444	5 547 683	5 064 982	6 296 463	**79 293 103**	(7 497 445)	(1 942 632)	**69 853 026**
including export	-	157 284	-	772 730	-	-	-	**930 014**	-	-	**930 014**
Depreciation of property, plant, equipment	6 236 832	326 278	2 106 522	478 765	348 607	42 381	16 461	**9 555 846**	-	(3 331 114)	**6 224 732**
Reportable segment profit / (loss)	787 199	2 657 582	458 008	4 056 156	1 249 150	78 161	(4 555 665)	**4 730 591**	(98 880)	3 265 689	**7 897 400**
Other material non-cash items:											
Impairment loss recognized	(161 232)	-	-	-	(578 028)	(1 167)	-	**(740 427)**	-	-	**(740 427)**

(in thousands of Russian Roubles)

Note 32. Segment Information (continued)

A reconciliation of management financial information prepared based on RAS to IFRS figures is provided as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Elimination of bilateral contract's revenue	-	(1 333 883)
Reclassification of government grant of Murmanskaya TPP from revenue to other income	(561 864)	(437 464)
Other adjustments	(1 011)	(171 287)
	(562 875)	**(1 942 634)**
Depreciation adjustment	3 307 170	3 331 114
Elimination of electricity purchase on bilateral contracts	-	1 333 883
Reclassification of government grant of Murmanskaya TPP from revenue to other income	561 864	437 464
Interest capitalized	-	463 579
(Charge)/reversal of property, plant and equipment impairment, net	(2 952 877)	(740 426)
Provision for impairment of trade and other accounts receivable	34 139	(133 736)
Actuarial losses	15 325	(85)
Effect of discounting	(140 356)	(66 987)
Other adjustments	(343 203)	583 517
	482 062	**5 208 323**
Total adjustments to profit before income tax	**(80 813)**	**3 265 689**

Segment's assets are disclosed below:

	31 December 2014	31 December 2013
TPP of Nevsky branch	62 740 376	65 054 459
HPS of Nevsky branch	8 871 078	9 026 368
St. Petersburg Heating Grid	38 625 212	37 682 054
Kolsky branch	11 905 090	11 476 378
Karelsky branch	5 113 945	4 996 173
Murmanskaya TPP	3 760 394	3 155 354
Unallocated segments	31 234 111	30 818 867
Total segments	**162 250 206**	**162 209 653**
Eliminations	(17 952 639)	(17 740 346)
Adjustments	6 032 440	6 132 461
Total assets	**150 330 007**	**150 601 768**

A reconciliation of management financial information prepared based on RAS to IFRS figures is provided as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Property, plant and equipment adjustment	6 637 707	6 866 058
Provision for impairment of trade and other accounts receivable	(99 597)	(133 736)
Deferred tax assets	85 302	(415 313)
Discounting of accounts receivables and investments	(262 503)	(70 294)
Other adjustments	(328 469)	(114 257)
Total assets adjustments	**6 032 440**	**6 132 458**

Unallocated assets are the assets which cannot be directly related to a particular operating segment, and also those which from the decision-making perspective fall outsidethe operating segment's control. These assets include short-and long-term trade receivables, cash in bank, deposits, inventories and fixed assets which are the subject to headquarter control.

(in thousands of Russian Roubles)

Note 32. Segment Information (continued)

The Group's management does not review the information relating to the operating segment's liabilities in order to make decisions about resource allocation since a significant proportion of the payment transactions are centralised.

Note 33. Non-Controlling Interest

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

	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Profit or loss attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
Year ended 31 December 2014					
OJSC St Petersburg Heating Grid	Saint-Petersburg	25%	254 559	8 646 876	-
JSC Murmanskaya TPP	Murmansk	9.66%	4 666	(41 787)	-
Total			**259 225**	**8 605 089**	
Year ended 31 December 2013					
OJSC St Petersburg Heating Grid	Saint-Petersburg	25%	452 230	8 388 035	-
JSC Murmanskaya TPP	Murmansk	9.66%	(8 376)	(47 238)	-
Total			**443 854**	**8 340 797**	

The summarised financial information of OJSC St Petersburg Heating Grid and JSC Murmanskaya TPP was as follows at 31 December 2014:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Total compre-hensive income	Cash flows
Year ended 31 December 2014								
OJSC St Petersburg Heating Grid	1 560 266	30 924 494	4 011 848	2 776 121	6 974 870	1 018 235	1 022 516	36 182
JSC Murmanskaya TPP	2 938 351	893 252	4 037 810	1 432 874	4 752 299	48 303	49 088	195 233
Total	**4 498 617**	**31 817 746**	**8 049 658**	**4 208 995**	**11 727 169**	**1 066 538**	**1 071 604**	**231 415**
Year ended 31 December 2013								
OJSC St Petersburg Heating Grid	1 536 345	29 641 867	2 483 852	3 832 258	6 775 837	1 808 918	1 805 049	26 476
JSC Murmanskaya TPP	2 271 712	967 097	4 868 509	66 457	4 627 518	(86 706)	(84 932)	1 024
Total	**3 808 057**	**30 608 964**	7 352 361	**3 898 715**	**11 403 355**	**1 722 212**	**1 720 117**	**27 500**

There are no significant restrictions for entity's ability to access or use the assets and settle the liabilities of the Group.

Note 34. Events after the Reporting Period

Borrowings

During the period between reporting date and signing date, the Group received short-term borrowings of RUB 453 300 thousand and short-term loans of RUB 1 000 000 thousand.

During the period between reporting date and signing date, the Group repaid borrowings of RUB 1 574 676 thousand and loans of RUB 2 443 000 thousand.

V.Y. Sokolov, Director, ZAO PricewaterhouseCoopers Audit
10 March 2014

60 (sixty) pages are numbered, bound and sealed.