Joint Stock Company

Quadra –
Power generation

Consolidated Financial Statements and
Independent Auditors' Report
For the Year Ended 31 December 2014

Joint Stock Company Quadra – Power generation

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Company Quadra – Power generation (the "Company") and its subsidiaries (the "Group") as at 31 December 2014 and financial performance, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group;
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2014 approved on 5 June 2015 by:

V.L. Aleksandrovich	I.A. Lapitskaya
General Director	Chief Accountant

Tula, Russian Federation

ZAO Deloitte & Touche CIS
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Moscow, 125047
Russia

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Joint Stock Company Quadra – Power generation:

We have audited the accompanying consolidated financial statements of Joint Stock Company Quadra – Power generation and its subsidiaries (collectively – 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, cash flows and changes in equity for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of the Group 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on 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 auditors' 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 auditors consider 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 Group'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.

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.

Emphasis of matter

Without qualifying our opinion, we draw attention to the information in note 1 to the consolidated financial statements. As at 31 December 2014, the loss for the year amounted to RUB 5,591,512 and the net current liabilities of the Group amounted to RUB 6,289,610 thousand. Management have prepared an action plan to reduce the losses and the deficiency of working capital. Management note the current uncertainty in the debt markets and currently are undertaking measures to revise the conditions of the Group's credit agreements.

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern and do not include any adjustments that might result from the non-realisation of the management's plans.

Deloitte & Touche

5 June 2015
Moscow, Russian Federation

Закрытое акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений
Россия, г. Москва, ул. Лесная, д. 5

Raikhman Mikhail Valerievich, partner
(certificate no. 01-001195 dated 14 January 2013)

ZAO Deloitte & Touche CIS

The Entity: Joint Stock Company Quadra – Power generation

Certificate of registration in the Unified State Register № 1056882304489 of 20.04.2005, issued by Tambov's Inspectorate of the Russian Ministry of Taxation.

Address: 99v, Timiryazev str., Tula, 300012, Russian Federation

Independent Auditor: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in «NP «Audit Chamber of Russia» (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

Joint Stock Company Quadra – Power generation

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2014
in thousands of Russian Roubles, unless otherwise stated

	Notes	31/12/2014	31/12/2013
ASSETS			
Non-current assets			
Property, plant and equipment	6	54,684,820	45,727,397
Investment properties		99,996	124,499
Available-for-sale investments		23,767	25,671
Accounts receivable and advances paid	8	323,088	504,971
Deferred tax assets	9	254,390	686,538
Other assets		330,793	300,513
		55,716,854	**47,369,589**
Current assets			
Inventories	7	1,569,792	1,638,295
Accounts receivable and advances paid	8	7,565,235	10,070,119
Income tax receivable		61,931	88,799
Cash and cash equivalents	10	988,223	245,030
Other assets		9,616	9,097
		10,194,797	**12,051,340**
TOTAL ASSETS		**65,911,651**	**59,420,929**
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary shares	11	19,125,056	19,125,056
Preferred shares	11	752,729	752,729
Share premium	11	10,921,097	10,921,097
Revaluation reserve for property, plant and equipment		12,778,558	8,737,423
Revaluation reserve for available-for-sale investments		(2,731)	(1,208)
Accumulated deficit		(13,944,785)	(9,265,850)
Equity attributable to owners of the Company		**29,629,924**	**30,269,247**
Non-controlling interests		50	50
TOTAL EQUITY		**29,629,974**	**30,269,297**
Non-current liabilities			
Loans and borrowings	12	18,108,407	13,828,144
Pension liabilities	13	344,404	604,053
Deferred tax liabilities	9	1,344,459	1,069,441
		19,797,270	**15,501,638**
Current liabilities			
Loans and borrowings	12	12,648,838	9,376,733
Accounts payable and accruals	14	2,646,706	2,881,161
Provisions	15	453,689	442,224
Income tax payable		245	387
Other taxes payable	16	734,929	949,489
		16,484,407	**13,649,994**
TOTAL LIABILITIES		**36,281,677**	**29,151,632**
TOTAL EQUITY AND LIABILITIES		**65,911,651**	**59,420,929**

Joint Stock Company Quadra – Power generation

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014
in thousands of Russian Roubles, unless otherwise stated

	Notes	Year ended 31/12/2014	Year ended 31/12/2013
Revenue			
Heat energy		22,815,176	22,113,514
Electricity		13,593,722	14,201,993
Capacity		8,326,306	9,475,418
Other revenue		1,158,382	777,516
Total revenue		**45,893,586**	**46,568,441**
Operating (expenses)/income			
Fuel		(25,218,119)	(24,936,178)
Staff costs	17	(5,997,463)	(5,972,759)
Purchase of energy and capacity		(5,353,495)	(5,421,130)
Charge for doubtful receivables	8	(2,381,506)	(2,046,089)
Depreciation of property, plant and equipment		(1,948,379)	(1,768,500)
Materials and spare parts		(946,216)	(1,146,800)
Water usage expenses		(810,879)	(879,920)
Heat transportation		(768,592)	(595,643)
Repair and maintenance		(757,693)	(923,643)
Taxes, other than income tax		(569,467)	(620,730)
OREM services		(405,315)	(405,070)
Rent expenses		(385,287)	(367,917)
Loss from disposal of property, plant and equipment		(353,422)	(41,589)
Security services		(184,503)	(194,947)
Charge for legal claims and fines		(54,196)	(92,692)
Change in fair value of investment properties		(24,503)	9,664
Gain from cession agreements		236,059	–
Gain from disposal of subsidiary		14,728	–
Other operating income		384,285	181,901
Other operating expenses		(1,321,008)	(1,263,742)
Operating (loss)/income before impairment of property, plant and equipment		**(951,385)**	**82,657**
Impairment of property, plant and equipment	6	(4,262,580)	–
Operating (loss)/income		**(5,213,965)**	**82,657**
Finance costs, net	18	(843,739)	(694,403)
Loss before income tax		**(6,057,704)**	**(611,746)**
Income tax	19	466,192	(108,490)
Loss for the year		**(5,591,512)**	**(720,236)**
Attributable to:			
Owners of the Company		(5,591,512)	(720,236)
Non-controlling interests		–	–
		(5,591,512)	**(720,236)**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

in thousands of Russian Roubles, unless otherwise stated

	Notes	Year ended 31/12/2014	Year ended 31/12/2013
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of pension liabilities, net of income tax		108,645	80,278
Revaluation of property, plant and equipment, net of income tax in the amount of RUB 1,210,984 thousand	6	4,843,934	–
		4,952,579	**80,278**
Items that may be reclassified subsequently to profit or loss:			
Revaluation of available-for-sale investments, net of income tax		(1,523)	(6,006)
		(1,523)	**(6,006)**
Other comprehensive income for the year		**4,951,056**	**74,272**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(640,456)**	**(645,964)**
Attributable to:			
Owners of the Company		(640,456)	(645,964)
Non-controlling interests		–	–
		(640,456)	**(645,964)**
LOSS PER SHARE			
Basic and diluted loss per share (in Roubles)	11	(0.0029)	(0.0004)

Joint Stock Company Quadra – Power generation

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014
in thousands of Russian Roubles, unless otherwise stated

	Year ended 31/12/2014	Year ended 31/12/2013
OPERATING ACTIVITIES		
Loss before income tax	**(6,057,704)**	**(611,746)**
Adjustments for:		
Depreciation of property, plant and equipment	1,948,379	1,768,500
Loss from disposal of property, plant and equipment	353,422	41,589
Impairment of property, plant and equipment	4,262,580	–
Gain from disposal of subsidiary	(14,728)	–
Change in fair value of investment properties	24,503	(9,664)
Finance costs, net	843,739	694,403
Charge for doubtful receivables	2,381,506	2,046,089
Charge for legal claims and fines	54,196	92,692
Other	(112,832)	18,071
Operating profit before working capital changes	**3,683,061**	**4,039,934**
Change in inventories	226,644	66,231
Change in accounts receivable, advances paid and other assets*	(1,359,911)	(3,355,961)
Change in pension liabilities	(165,136)	(53,010)
Change in accounts payable and accruals*	1,425,128	(139,672)
Change in other taxes payable	(209,588)	136,613
Cash generated from operations	**3,600,198**	**694,135**
Interest paid	(756,659)	(638,346)
Interest received	8,081	1,556
Income tax (paid)/reimbursed	(37,680)	9,893
Net cash generated from operating activities	**2,813,940**	**67,238**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(7,541,965)	(8,479,989)
Interest capitalised	(1,954,874)	(1,121,941)
Proceeds from disposal of property, plant and equipment	27,346	34,423
Purchase of intangible assets	(61,772)	(91,542)
Cash disposed on subsidiary sold	(1,732)	–
Other investing activities, net	1,897	593
Net cash used in investing activities	**(9,531,100)**	**(9,658,456)**
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	47,608,634	57,839,405
Repayments of loans and borrowings	(40,148,261)	(48,264,000)
Dividends paid	(20)	(190)
Net cash generated from financing activities	**7,460,353**	**9,575,215**
Net increase / (decrease) in cash and cash equivalents	**743 193**	**(16,003)**
Cash and cash equivalents at beginning of the year	**245,030**	**261,033**
Cash and cash equivalents at end of the year	**988,223**	**245,030**

* In 2014 the offset of mutual claims in the amount of RUB 1 625 576 thousand was executed.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
in thousands of Russian Roubles, unless otherwise stated

	Equity attributable to owners of the Company								
	Ordinary shares	Preferred shares	Share premium	Revaluation reserve for property, plant and equipment	Revaluation reserve for available-for-sale investments	Accumulated deficit	Total	Non-controlling interests	Total
Balance at 31 December 2012	**19,125,056**	**752,729**	**10,921,097**	**9,542,721**	**4,798**	**(9,433,429)**	**30,912,972**	**50**	**30,913,022**
Comprehensive loss for the year, net of income tax	–	–	–	–	(6,006)	(639,958)	**(645,964)**	–	**(645,964)**
Write off of overdue dividends payable	–	–	–	–	–	2,239	**2,239**	–	**2,239**
Transfer of realised revaluation reserve for property, plant and equipment to accumulated deficit, net of income tax in the amount of RUB 201,325 thousand	–	–	–	(805,298)	–	805,298	**–**	–	**–**
Balance at 31 December 2013	**19,125,056**	**752,729**	**10,921,097**	**8,737,423**	**(1,208)**	**(9,265,850)**	**30,269,247**	**50**	**30,269,297**
Comprehensive income / (loss) for the year, net of income tax	–	–	–	4,843,934	(1,523)	(5,482,867)	**(640,456)**	–	**(640,456)**
Write off of overdue dividends payable	–	–	–	–	–	1,133	**1,133**	–	**1,133**
Transfer of realised revaluation reserve for property, plant and equipment to accumulated deficit, net of income tax in the amount of RUB 200,700 thousand	–	–	–	(802,799)	–	802,799	**–**	–	**–**
Balance at 31 December 2014	**19,125,056**	**752,729**	**10,921,097**	**12,778,558**	**(2,731)**	**(13,944,785)**	**29,629,924**	**50**	**29,629,974**

in thousands of Russian Roubles, unless otherwise stated

1. GENERAL INFORMATION

Organisation

Open Joint Stock Company Quadra – Power generation (before 18 May 2010 - Open Joint Stock Company Territorial Generation Company № 4) was established on 18 April 2005 within the framework of Russian electricity sector restructuring ("Quadra" or the "Company").

The principal business activity of the Company and its subsidiaries (the "Group") is generation and sale of electricity (capacity) and heat energy. The major operational facilities of the Group are located on the territory of the Russian Federation in the following regions: Belgorod, Bryansk, Voronezh, Kaluga, Kursk, Lipetsk, Oryol, Ryazan, Smolensk, Tambov and Tula.

The Company's registered office is located at: 99v, Timiryazev str., Tula, 300012, Russian Federation.

Share of ownership of the Company in the share capital of the significant subsidiaries and their principal business activities are the following:

		Ownership, %	
	Principal activity	**31/12/2014**	**31/12/2013**
JSC Belgorodskaya Heat Network Company	Heat generation and distribution	100	100
LLC Voronezhskaya Heat Network Company	Heat generation and distribution	100	100
LLC Kurskaya Heat Network Company	Heat generation and distribution	100	100
LLC Smolenskaya Heat Network Company	Heat generation and distribution	100	100
LLC OTSK	Heat generation and distribution	100	100
LLC Lipetskaya Heat Network Company	Heat generation and distribution	100	100

As at 31 December 2014, the number of the Group's employees was 12,762 (2013: 12,714).

As at 31 December 2014 the major shareholder of Quadra was RINSOCO TRADING CO. LIMITED which owned 49.999995% of the Company's ordinary shares (2013: Joule Energy Limited – 49.999995%). The shares were transferred to RINSOCO TRADING CO. LIMITED from Joule Energy Limited under Securities Lending Agreement entered into by the above companies in December 2014. As at 31 December 2014 the parent company of RINSOCO TRADING CO. LIMITED was Onexim Holdings Limited. The ultimate beneficiary of Onexim Holdings Limited is M.D. Prokhorov.

Operating environment

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook.
In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. The exchange rate of the Russian Rouble depreciated significantly. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, further weakening of the Rouble and other negative economic consequences.

The impact of further political and economic developments in Russian Federation on future operations and financial position of the Group is at this stage difficult to determine.

Relations with the State and current regulation

The government affects the Group's operations by regulating tariffs for electricity and heat sales through the Federal Service on Tariffs ("FST") and Regional Energy Commissions. Tariffs which the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies.

Operations of all generating facilities are coordinated by the System Operator of the Unified Energy System ("SO UES") in order to meet system requirements in a more efficient manner. Operations of SO UES are controlled by the state.

Russian government's economic, social and other policies could have a material effect on the Group's operations.

Going concern

The Group's management have assessed the ability of the Group to continue as a going concern and considered all the factors that are likely to affect the future development, performance and financial position of the Group, including cash flows, liquidity position, borrowing facilities and the risks and uncertainties relating to the business activities.

As at 31 December 2014 the Group had a working capital deficiency of RUB 6,289,610 thousand and a net loss for the year then ended of RUB 5 591 512 thousand (2013: RUB 720 236 thousand) The increase in net loss is mainly due to recognized impairment charge on Group's revalued fixed assets (Note 6) in the amount of RUB 4 262 580 thousand (2013: nil) and also due to operating loss of RUB 951 385 thousand (2013: operating profit of RUB 82 657 thousand).

To assess the Group's ability to settle it's liabilities when they fall due during 2015 financial year the Group's management prepared a cash flow forecast for the relevant period taking into account that as of 31 December 2014 the Group had access to guaranteed credit resources in the amount of RUB 7,994,861 thousand (Note 12), furthermore, revolving credit lines with the maturities over twelve months after the reporting date in the amount of RUB 10,362,326 thousand are shown as short-term borrowings. Management expects that these credit resources and revolving credit lines will remain available in the foreseeable future.

To prevent future operating losses the Group develops and realizes relevant action steps to work directly with heat end users, including getting "single heat provider" status in several municipalities. The management performs a detailed review of accounts receivable recoverability and as a result increases efficiency of litigations related to overdue receivables. The Group's management is constantly in negotiations with regional authorities regarding inclusion in Group's next period heat tariffs of economically justified expenses not included in current period tariffs.

In addition to the above, as disclosed in Note 12, in the second half of 2014, the Group breached several covenants under long-term debt facilities received from JSC Gazprombank and JSC Sberbank of Russian Federaion. In December 2014, the Group received a written confirmation from these creditors waiving their rights to use any sanctions against the Group, including exercise of margin calls of outstanding debt amounts. Currently the Group's management renegotiates new terms of the above agreements and is sure that relevant addendums will be signed in the foreseeable future.

In the light of the current debt market uncertainty the major shareholder of the Group confirmed it's ability to offer financial support to JSC Quadra if required.

As a result of the prepared cash flow analysis for 2015 and review of the above circumstances management believes that the Group will be able to settle its current liabilities as they fall due. Management therefore believes that the Group will continue as a going concern for the foreseeable future and accordingly these consolidated financial statements have been prepared on that basis and do not include any adjustments that might result from negative outcome of the above uncertainty.

in thousands of Russian Roubles, unless otherwise stated

2. BASIS OF PRESENTATION

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which includes standards and interpretations approved by the International Accounting Standards Board, including International Accounting Standards and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the Russian Federation, where entities of the Group are incorporated and registered. Accounting principles and financial reporting procedures in the Russian Federation differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis except for:

- Mark-to-market valuation of certain financial instruments, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*;
- Revaluation of property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment*.

Adoption of new and revised standards and interpretations

In the preparation of these consolidated financial statements, the Group has adopted all new standards and interpretations that are mandatory for adoption in annual periods beginning on 1 January 2014:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment Entities*;
- Amendments to IAS 32 – *Offsetting Financial Assets and Financial Liabilities*;
- Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets*;
- Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting*;
- IFRIC 21 *Levies*.

Adoption of those standards and interpretations did not result in changes to the Group financial position, results of operations or level of disclosures.

Standards in issue but not yet adopted

At the date of authorisation of these consolidated financial statements, the following standards were in issue but not yet effective:

Standards	**Effective for annual periods beginning on or after**
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
IFRS 15 *Revenue from Contracts with Customers*	1 January 2017
Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016
Amendments to IAS 27 - *Equity Method in Separate Financial Statements*	1 January 2016
Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*	1 January 2016
Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*	1 July 2014
Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*	1 January 2016
Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	1 January 2016
Amendments to IFRSs *Annual Improvements to IFRSs 2010-2012 Cycle*	1 July 2014
Amendments to IFRSs *Annual Improvements to IFRSs 2011-2013 Cycle*	1 July 2014
Amendments to IFRSs *Annual Improvements to IFRSs 2012-2014 Cycle*	1 January 2016
Amendments to IAS 1 – Disclosure initiative project	1 January 2016

Management anticipates that all of the above standards will be adopted in the Group's consolidated financial statements for the respective periods. The impact of adoption of those standards on the consolidated financial statements of future periods is currently being assessed by management.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.
All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Differences, if any, between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest;
- The previous carrying amount of the assets (including goodwill, if any) and liabilities of the subsidiary and any non-controlling interests.

Accounting of operations in foreign currencies

The functional currency of the Company and its subsidiaries is the Russian Rouble ("RUB").

In preparing financial statements of the individual entities, transactions in currencies other than RUB (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the each reporting dates. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

in thousands of Russian Roubles, unless otherwise stated

Exchange differences are recognised in profit or loss in the period in which they arise.

Exchange rates used in the preparation of the consolidated financial statements are as follows:

	31/12/2014	31/12/2013
RUB to 1 US Dollar		
Year end rates	56.26	32.73
RUB to 1 Euro		
Year end rates	68.34	44.97

Property, plant and equipment

Property, plant and equipment are stated at revalued amounts less any subsequent accumulated depreciation and impairment losses.

All classes of property, plant and equipment are presented in the consolidated statement of financial position at their revalued amounts determined by an independent and qualified appraiser. The basis of valuation is fair value. In some instances, when items of property, plant and equipment are of a specialised nature, they are valued at depreciated replacement cost. For such items of property, plant and equipment the new replacement cost is established as the current cost to replace the assets with a functionally equivalent asset. The new replacement cost is then adjusted for accrued depreciation, including physical depreciation and functional obsolescence.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ substantially from those that would be determined using fair values at end of the reporting period. Any revaluation increase arising on revaluation of such property, plant and equipment is recognised in other comprehensive income, except to the extend that it reverses a revaluation decreases for the same assets previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is recognised in profit or loss to the extent that it exceeds the amount of accumulated revaluation relating to that asset.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and its carrying value is restated to the revalued amount (fair value or depreciated replacement cost).

Construction-in-progress includes costs directly related to the construction or acquisition of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets (i.e. software that is integral part of related equipment) that require installation or preparation for their use. Finance costs that are attributable to the acquisition or construction of assets, that necessary takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset. Depreciation of these assets commences when the assets are put into operation using the same accounting principles as for property, plant and equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. The Group recognises the cost of replacing part in the carrying amount of an item of property, plant and equipment if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the assets and is recognised in profit or loss. Therefore, accumulated revaluation reserve is transferred to retained earnings.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Operating leasehold improvements are depreciated over the shorter of their estimated useful lives and lease terms. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset. Land is not depreciated.

Depreciation is recognised in profit or loss. The revaluation surplus related to the assets used by the Group is transferred to the retained earnings proportionately to the amount of depreciation charge on the asset's original cost.

The weighted average residual useful lives (in years) for the major classes of property, plant and equipment used in determination of depreciation charge for the year ended 31 December 2014 were as follows:

Electricity and heat generation	29
Electricity distribution	17
Heating networks	13
Other	19

Depreciation methods, useful lives and residual values (if any) are reviewed at each reporting date, with the effect of any changes in estimates being accounted for on a prospective basis.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Impairment of tangible and intangible assets, excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease (see above).

Where an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (see above).

Financial assets

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets of the Group are classified into the following specified categories:

- Available-for-sale (“AFS”) financial assets; and
- Loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

AFS financial assets

Listed and unlisted shares held by the Group are classified as AFS and are stated at fair value. Fair value of AFS is determined as follows:

- The fair value of AFS financial assets with standard terms and conditions and traded on active liquid markets are determined with a reference to quoted market prices; and
- The fair value of other AFS financial assets are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable market transactions.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the *Revaluation reserve for available-for-sale investments* with the exception of impairment losses, which are recognised directly in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the *Revaluation reserve for available-for-sale investments* is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group’s right to receive payments is established.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the securities below their cost is considered to be an evidence of impairment.

For loans and receivables objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For loans and receivables (financial assets carried at amortised cost), the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying value is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Change in the carrying amount of the allowance account is recognised in profit or loss.

When an AFS is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

With the exception of AFS financial assets, if in subsequent period the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment is reversed through profit or loss to the extant that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS investments in shares, impairment loss previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes appropriate portion of fixed and variable overheads and is calculated using the following methods:

- *Cost of fuel* is determined on the weighted average basis;
- *Cost of other inventory* is determined on an individual basis.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial liabilities

Financial liabilities, including trade and other payables and loans and borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Provisions and contingencies

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is highly probable that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

Contingencies attributable to specific events are disclosed unless the probability of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefit is probable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding value added tax. Revenue is recognised to the extent that it is probable that economic benefit will flow to the Group and the revenue can be reliably measured. Cash received in advance from customers is not treated as current year revenue, and is recognised within liabilities.

Revenue from heat, electricity and capacity sales

Revenue from heat, electricity and capacity sales is recognised when they are supplied to customers.

Other revenue

Other revenue from sales of goods and services are recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend and interest income

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease agreement. Initial direct costs, if any, incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over lease term.

The Group as lessee under operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Employee benefit obligations

Remuneration to employees in respect if services rendered during the reporting period, including accruals for unused vacation, bonuses and related social security taxes, is recognised as an expense in the period when it is earned.

Defined contribution plan

The Group's entities are legally obliged to make defined contributions to the Russian Federation State Pension Fund, a defined contribution plan. The Group's contributions to the Russian Federation State Pension Fund are expensed over the reporting period. Contributions for each employee to the Russian Federation State Pension Fund vary from 10% to 22%, depending on the annual gross remuneration of each employee.

Defined benefit plan

The amount of Group's liabilities for the unfunded defined benefit retirement plan is determined using the Project Unit Credit Method, with actuarial valuation being carried out at the end of each reporting period with immediate recognition of all actuarial gains and losses in the consolidated statement of profit or loss and other comprehensive income.

The retirement benefit obligations recognised in the consolidated statement of financial position represent the present value of the defined benefit obligations.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liabilities for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of reporting period.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the rates that are expected to apply in the period in which the liability is settled or the asset realised, based on the tax rates that have been enacted or substantially enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of reporting period, to recover or settle the carrying amount of its assets and liabilities.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Preparation of the consolidated financial statements in accordance with the IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

- Useful economic lives of property, plant and equipment;
- Revaluation and impairment of property, plant and equipment;
- Allowance for doubtful receivables;
- Assessment of probability of obtaining taxable profits in future, available to offset deductible temporary differences and unused tax losses.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Useful economic lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the Group's experience with similar assets. The future economic benefits embodied in property, plant and equipment are consumed principally through use. However, other factors, such as technical or commercial obsolescence and condition of property, plant and equipment (including operational factors and utilisation of maintenance programs), often will result in a change of the economic benefits from these assets.

Management periodically reviews the appropriateness of assets' useful economic lives. Effect of such revision of estimate of the useful lives of property, plant and equipment is recognised prospectively in the period of the revision and where applicable, future periods. Accordingly, this may impact the amount of depreciation charge and carrying amount of property, plant and equipment in the future.

Revaluation and impairment of property, plant and equipment

The Group's management assesses the necessity of revaluation of property, plant and equipment, including analysis of changes of the estimates and significant assumptions of the prior year. As a result of such analysis the Group's management made a decision to carry out a full revaluation of its property, plant and equipment as at 31 December 2014. For this independent appraiser was involved.

Due to the specialized nature of the Group's property, plant and equipment and the lack of their active market, the relevant revaluation was based on the income approach. The key judgmental assumptions used for the forecasted periods under such approach were:

- Definition of base cash flows;
- Growth rates of electricity tariffs;
- Growth rates of power capacity tariffs;
- Growth rates of heat tariffs;
- Definition of forecasted production levels;
- Definition of discount rate.

Please see details of the above assumptions used in note 6.

Also in performing the valuation, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the fair value calculation.

Subsequent changes to the cash-generating unit allocation or to the timing of cash flows might impact the carrying value of the respective assets.

Allowance for doubtful receivables

The Group creates an allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. At 31 December 2014, allowance for doubtful receivables amounted to RUB 5,436,862 thousand (2013: RUB 4,733,681 thousand). When evaluating the adequacy of an allowance for doubtful receivables, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms, as well as assessment of probability of positive resolutions of the court cases.

in thousands of Russian Roubles, unless otherwise stated

5. RECLASSIFICATIONS

Certain comparative information, presented in the consolidated financial statements for the years ended 31 December 2013 and 2012 has been reclassified in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2014. Reclassifications were made in accordance with the decision of the Group's management to present liabilities related to employees' unused vacations and annual bonuses as provisions and furthermore the decision to present merger reserve within accumulated deficit.

The effect of the reclassifications as at 31 December 2013 in the consolidated statement of financial position and consolidated statement of changes in equity is summarised below:

	Before reclassification	Reclassification	After reclassification
Reserve created on formation of the Group	(1,807,993)	1,807,993	–
Accumulated deficit	(7,457,857)	(1,807,993)	(9,265,850)
Accounts payable and accruals	3,215,277	(334,116)	2,881,161
Provisions	108,108	334,116	442,224

The effect of the reclassifications as at 31 December 2012 in the consolidated statement of changes in equity is summarised below:

	Before reclassification	Reclassification	After reclassification
Merger reserve	(1,807,993)	1,807,993	–
Accumulated deficit	(7,625,436)	(1,807,993)	(9,433,429)

in thousands of Russian Roubles, unless otherwise stated

6. PROPERTY, PLANT AND EQUIPMENT

	Electricity and heat generation	Electricity distribution	Heating networks	Other	Construction-in-progress	Total
Cost or valuation						
Balance at 1 January 2013	**18,243,694**	**485,238**	**1,007,604**	**4,135,472**	**14,168,817**	**38,040,825**
Additions	38,566	–	25,759	58,861	9,409,025	**9,532,211**
Transfers from construction-in-progress	7,907,738	48,286	502,903	230,726	(8,689,653)	**–**
Disposals	(10,467)	(108)	(22,425)	(48,381)	(7,113)	**(88,494)**
Balance at 31 December 2013	**26,179,531**	**533,416**	**1,513,841**	**4,376,678**	**14,881,076**	**47,484,542**
Additions	3,816	–	684	77,075	9,413,068	**9,494,643**
Transfers from construction-in-progress	857,877	137,127	399,709	312,007	(1,706,720)	**–**
Disposals	(344,053)	(346)	(194)	(39,354)	(34,068)	**(418,015)**
Revaluation	1,068,655	89,582	3,502,084	999,899	394,698	**6,054,918**
Reclassification of accumulated depreciation and impairment as a result of revaluation	(5,833,515)	(325,378)	(737,174)	(534,095)	(501,106)	**(7,931,268)**
Balance at 31 December 2014	**21 932 311**	**434,401**	**4,678,950**	**5,192,210**	**22,446,948**	**54,684,820**
Accumulated depreciation and impairment						
Balance at 1 January 2013	**–**	**–**	**–**	**–**	**–**	**–**
Depreciation charge for the year	(1,177,944)	(53,272)	(121,381)	(415,903)	–	**(1,768,500)**
Eliminated on disposals	607	77	315	10,356	–	**11,355**
Balance at 31 December 2013	**(1,177,337)**	**(53,195)**	**(121,066)**	**(405,547)**	**–**	**(1,757,145)**
Depreciation charge for the year	(1,295,608)	(66,402)	(174,986)	(411,383)	–	**(1,948,379)**
Eliminated on disposals	22,813	230	66	13,727	–	**36,836**
(Recognition) / reversal of impairment, net	(3,383,383)	(206,011)	(441,188)	269,108	(501,106)	**(4,262,580)**
Reclassification of accumulated depreciation and impairment as a result of revaluation	5,833,515	325,378	737,174	534,095	501,106	**7,931,268**
Balance at 31 December 2014	**–**	**–**	**–**	**–**	**–**	**–**
Carrying value						
Balance at 31 December 2013	**25,002,194**	**480,221**	**1,392,775**	**3,971,131**	**14,881,076**	**45,727,397**
Balance at 31 December 2014	**21 932 311**	**434,401**	**4,678,950**	**5,192,210**	**22,446,948**	**54,684,820**

in thousands of Russian Roubles, unless otherwise stated

Borrowing costs capitalised

During the year ended 31 December 2014 borrowing costs capitalised amounted to RUB 1,992,979 thousand (2013: RUB 1,151,983 thousand) (note 18).

Construction-in-progress

As at 31 December 2014 construction-in-progress included advances to construction companies and suppliers of property, plant and equipment in the amount of RUB 4,972,513 thousand (2013: RUB 4,266,857 thousand).

Revaluation and impairment of property, plant and equipment

The depreciated historical (deemed) cost of the Group's property, plant and equipment is as follows:

	31/12/2014	**31/12/2013**
Electricity and heat generation	13,612,669	17,133,074
Electricity distribution	205,386	316,410
Heating networks	690,973	813,645
Other	2,437,123	1,948,948
Construction-in-progress	22,018,600	14,846,573
Total	**38,964,751**	**35,058,650**

Fair value of property, plant and equipment represents mostly the third level of fair value hierarchy.

As at 31 December 2014, as part of revaluation of the Group's property, plant and equipment management together with an independent and qualified appraiser used the following most significant estimates and assumptions used in determination of fair value or recoverable depreciated replacement cost as follows:

Cash flows were projected based on budgeted amounts for 2015 and forecasted up to 2026.

Increase of electricity tariffs was based on actual tariffs effective from 1 January 2015 as approved by FST. Management expects that regulated tariffs as well as dynamics of the prices in the free sectors of electricity market will be broadly indexed in line with the increase of natural gas prices (principal technological fuel). The same expectations were applied in determination of electricity prices on the open market, and expected trend will be in line with the increase of natural gas and coal prices, including adjustments in regard to new generation capacities to be put into the operation in the future. The average annual growth rate for the period from 2016 to 2026 was 7.3%.

Increase of capacity tariffs was based on actual tariffs effective from 1 January 2015 as approved by FST. Management expects that tariffs will be a subject for indexation in line with expected purchase power price index ("PPPI") increase. The average annual growth rate for the period from 2016 to 2026 was 7.3%. Calculation of tariffs for facilities completed under capacity supply agreements was based on methodology specified by the agreements.

Increase of heat tariffs was based on actual tariffs effective from 1 January 2015 (where applicable). After 2015 management expects introduction of "alternative boiler" pricing method in the heating sphere, which assumes even increase of 2015 tariffs to the level of "alternative boiler" in 2021. The average annual growth rate for the period from 2016 to 2021 was from 3.97% to 25.66% dependent on the region of the Group's operations. The average annual growth rate for the period from 2022 to 2025 was consistent with the growth of PPPI and was 4.82%.

The *volumes of electricity and heat output* for the following years were estimated by management of the Group based on budgeted amounts for 2015, taking into account planned assets disposals and input of new facilities under capacity supply agreements up to 2017. The average annual growth rate for the period up to 2018 was 9.15% (electricity) and 2.34% (heat energy).

in thousands of Russian Roubles, unless otherwise stated

Post-tax *discount rates* in the range of 14.67%-17.87% were applied in valuation models to forecasted periods.

As a result of revaluation and impairment test at 31 December 2014, the Group recognised an increase in the value of property, plant and equipment in the amount of RUB 6,054,918 thousand in other comprehensive income and impairment of property, plant and equipment in the amount of RUB 4,262,580 thousand in profit and loss.

The implication of the key assumptions and impact on carrying value of property, plant and equipment are presented as follows:

	Discount rate		PPPI		Natural gas price	
	-1%	+1%	-1%	+1%	-1%	+1%
Increase/(decrease) in carrying value	2,815,563	(3,075,437)	820,563	(738,437)	960,563	(963,437)

Pledged items of property, plant and equipment

As at 31 December 2014 certain items of property, plant and equipment were pledged as a security under credit agreements (note 12):

Property, plant and equipment group	Carrying value	Pledge value
Electricity and heat generation	5,474,639	3,928,070
Electricity distribution	57,689	64,353
Other	686,397	302,374
Construction-in-progress	9,690,176	6,675,984
Total	**15,908,901**	**10,970,781**

7. INVENTORIES

	31/12/2014	31/12/2013
Fuel	1,231,462	1,268,232
Raw materials	356,707	361,036
Other inventories	176,407	195,325
Total inventories, at cost	**1,764,576**	**1,824,593**
Allowance for obsolete and slow moving items	(4,242)	(1,056)
Total	**1,760,334**	**1,823,537**
Total non-current portion of inventories	**190,542**	**185 242**
Total current portion of inventories	**1,569,792**	**1 638 295**

in thousands of Russian Roubles, unless otherwise stated

8. ACCOUNTS RECEIVABLE AND ADVANCES PAID

	31/12/2014	31/12/2013
Trade accounts receivable	12,308,808	14,067,710
Other accounts receivable	156,292	158,553
Allowance for doubtful receivables	(5,436,862)	(4,733,681)
Total financial assets	**7,028,238**	**9,492,582**
Advances paid and prepaid expenses	625,591	970,931
VAT reimbursable	139,639	105,558
Other taxes receivable	94,855	6,019
Total non-financial assets	**860,085**	**1,082,508**
Total non-current portion of accounts receivable and advances paid	**323,088**	**504,971**
Total current portion of accounts receivable and advances paid	**7,565,235**	**10,070,119**

The average credit period for the Group's customers in 2014 was 103 days (2013: 98 days). In the period of the normal agreement term no interest is charged on outstanding balances. Thereafter, in regard of the agreements for supply of electricity and capacity, interest is charged at the 1/225 of the Central Bank of the Russian Federation ("CB RF") refinancing rate per day. As at 31 December 2014, the CB RF refinancing rate was established at 8.25% per annum (2013: 8.25% per annum).

The majority of counterparties are monopolists for further distribution and sales of electricity and heat energy. Utility services are the monopoly services provided by the Group subsidiaries in the regions where they operate. When a commercial enterprise, a customer of the Group, fails to settle the amount due the heat energy supplied within 30 days after the date of invoice, the Group has a right to restrict or temporary discontinue provision of services to this customer. Such a right does not exist in respect of individuals and certain state controlled entities.

At 31 December 2014, the Group's five largest counterparties in terms of annual revenue represented 22.7% (2013: 37.4%) of the outstanding balance of trade accounts receivable:

	31/12/2014	31/12/2013
MUP Tambovinvestservice	449,885	415,334
MUP Smolenskteploset	404,909	700,398
JSC Financial Settling Center	401,343	547,080
JSC LGEC	290,968	1,414,016
MUP Gorteploset, Kursk	16,584	416,791
Total	**1,563,689**	**3,493,619**

in thousands of Russian Roubles, unless otherwise stated

Aging of past due trade and other receivables was as follows:

	31/12/2014		31/12/2013	
	Outstanding balance	**Impairment provision**	**Outstanding balance**	**Impairment provision**
Not past due	5,174,492	(139,327)	6,498,121	(557,468)
From 30 to 90 days	587,158	(202,063)	660,389	(64,384)
From 91 to 180 days	270,946	(143,712)	304,810	(85,839)
From 181 to 360 days	1,763,485	(912,543)	3,155,558	(1,321,496)
More than 361 days	4,669,019	(4,039,217)	3,607,385	(2,704,494)
Total	**12,465,100**	**(5,436,862)**	**14,226,263**	**(4,733,681)**

Movement in allowance for doubtful receivables in respect of trade and other receivables is presented as follows:

	Year ended 31/12/2014	**Year ended 31/12/2013**
Balance at beginning of the year	**4,733,681**	**2,805,516**
Effect of discounting of long-term accounts receivable	390,869	5,357
Additional allowance recognised	2,745,930	2,740,011
Reversal of previously recognised allowance	(730,150)	(290,690)
Unwinding of discount of long-term accounts receivable	(25,143)	(408,589)
Total recognised in profit or loss	**2,381,506**	**2,046,089**
Amounts written-off against previously recognised allowance	(1,678,325)	(117,924)
Balance at end of the year	**5,436,862**	**4,733,681**

Analysis of the largest counterparties with past due over 181 days and not fully impaired accounts receivable as at 31 December 2014:

	Outstanding balance	**Impairment provision**
MUP Smolenskteploset	481,634	(142,752)
MUP Tambovinvestservice	449,751	(304,088)
JSC LGEC	369,152	(81,796)
MUP Ryazanskoe municipalnoye predpriyatie teplovyh setey	326,385	(151,921)
LLC Orelteplogaz	105,613	(90,719)
Total	**1,732,535**	**(771,276)**

Management of the Group performed a detailed analysis of past due but not impaired accounts receivable and considered that the probability reimbursement is high. In particular, recent changes in the Group’s relationships with certain customers were considered, as a result of which the part of Group’s accounts receivable may be settled by the means of offset. Other factors taken into account in assessing recoverability are outlined in note 4.

in thousands of Russian Roubles, unless otherwise stated

9. DEFERRED TAX

Movements in deferred tax assets and liabilities of the Group for the years ended 31 December 2014 and 2013 are presented as follows:

	31/12/2014	Recognised in profit or loss	Recognised in other comprehen-sive income	31/12/2013	Recognised in profit or loss	Recognised in other comprehen-sive income	31/12/2012
Deferred tax assets							
Doubtful receivables	**987,470**	(10,474)	–	**997,944**	776,378	–	**221,566**
Loss carried forward	**655,708**	(32,704)	–	**688,412**	191,356	–	**497,056**
Property, plant and equipment	**210,829**	(38,046)	–	**248,875**	(56,424)	–	**305,299**
Accounts payable and accruals	**72,085**	(6,481)	–	**78,566**	(49,667)	–	**128,233**
Pension	**3,448**	16,455	(27,161)	**14,154**	21,205	(20,069)	**13,018**
Other	**13,648**	6,748	381	**6,519**	(3,429)	1,502	**8,446**
Total	**1,943,188**	**(64,502)**	**(26,780)**	**2,034,470**	**879,419**	**(18,567)**	**1,173,618**
Offset against deferred tax liabilities	**(1,688,798)**			**(1,347,932)**			**(599,941)**
Total deferred tax assets	**254,390**			**686,538**			**573,677**
Deferred tax liabilities							
Property, plant and equipment	**3,011,573**	(592,826)	1,210,984	**2,393,415**	935,883	–	**1,457,532**
Investment properties	**14,735**	(4,984)	–	**19,719**	2,016	–	**17,703**
Other	**6,949**	2,710	–	**4,239**	160	–	**4,079**
Total	**3,033,257**	**(595,100)**	1,210,984	**2,417,373**	**938,059**	–	**1,479,314**
Offset against deferred tax assets	**(1,688,798)**			**(1,347,932)**			**(599,941)**
Total deferred tax liabilities	**1,344,459**			**1,069,441**			**879,373**

Unrecognised deferred tax assets

	31/12/2014	31/12/2013
Tax losses, carried forward to future periods	350,341	–
Deductible temporary differences	212,604	–
Итого	**562,945**	**–**

Unrecognised deferred tax assets related to temporary differences associated with investments in subsidiaries amounted to RUB 847,164 thousand as at 31 December 2014 (2013: RUB 540,851 thousand).

10. CASH AND CASH EQUIVALENTS

	31/12/2014	31/12/2013
Bank deposits	663,320	46,000
Current bank accounts in RUB	322,592	198,121
Cash equivalents	2,311	909
Total	**988,223**	**245,030**

The summary below shows credit quality analysis and outstanding balances for cash and cash equivalents as at the reporting dates:

Bank name	Rating agency	Rating	31/12/2014	31/12/2013
JSC Gazprombank	Fitch Ratings	BB+	725,922	54,543
JSC Sberbank of the Russian Federation	Fitch Ratings	BBB-	251,279	174,059
Other			11,022	16,428
Total			**988,223**	**245,030**

11. CAPITAL AND RESERVES

Share capital

	Number of shares, in thousands	Balance
Ordinary shares	1,912,505,578	19,125,056
Preferred shares	75,272,939	752,729
Total		**19,877,785**

The holders of the Company's ordinary shares of RUB 0.01 at par, carry one vote per share on the shareholders meetings and the right to dividends, which are subject for approval at shareholders meeting.

The holders of the Company's preferred shares of RUB 0.01 at par, are entitled to receive (per one share) 40% from net profit (determined under Russian Accounting Standards) divided by number of ordinary and preferred shares of the Company during reporting period but not less than dividends declared for the Company's ordinary shares. They do not have right to vote at the shareholders meetings if dividends were declared, and their shares carry one vote per share, if dividends were not declared.

Share premium

Share premium was recorded in 2008, as a result of issuance of additional ordinary shares and excess of cash consideration received over their par value.

Loss per share

Loss per share for the years ended 31 December 2013 and 2012 was calculated based on weighted average number of the Company's ordinary shares outstanding during respective periods and loss, attributable to owners of the Company and presented as follows:

	Year ended 31/12/2014	Year ended 31/12/2013
Loss for the year used in the calculation of loss per share	**(5,591,512)**	**(720,236)**
Weighted average number of the Company's ordinary shares, in thousands of shares	1,912,505,578	1,912,505,578
Loss per share, in RUB	**(0.0029)**	**(0.0004)**

12. LOANS AND BORROWINGS

	31/12/2014		31/12/2013	
	Rate, as %	Balance	Rate, as %	Balance
Secured bank loans:				
JSC Gazpombank	11.76 – 13.12	3,698,659	10.86 – 10.92	3,011,376
JSC Sberbank of the Russian Federation	11.76 – 13.12	3,698,659	10.86 – 10.92	3,011,376
Unsecured bank loans:				
JSC Gazpombank	10.80 – 25.00	15,476,067	7.62 – 10.85	11,642,848
JSC Sberbank of the Russian Federation	8.05 – 13.95	7,668,917	7.72 – 10.75	5,416,331
Interest accrued	–	214,943	–	122,946
		30,757,245		**23,204,877**
Long-term portion of loans and borrowings		**18,108,407**		**13,828,144**
Current portion of loans and borrowings		**12,648,838**		**9,376,733**

All bank loans are RUB-denominated and with fixed interest rates.

As at 31 December 2014 certain credit facilities were secured by the pledged property, plant and equipment (note 6).

Certain bank loans are subject to the restrictive covenants, including but not limited to:

- Maintenance of certain financial ratios (such as Net Debt / EBITDA);
- Pre-approval restrictions on pledging of the Group's assets;
- Pre-approval restrictions on increase of finance liability;
- Pre-approval restrictions on disposition of certain property;
- Pre-approval restrictions on purchasing of certain property;
- Pre-approval restrictions on providing financing to third parties;
- Determined minimum amount of cash collection that has to be transferred to the account at defined banks during reporting periods (month);
- Compliance with terms of capacity supply and putting into operation under CSA projects.

in thousands of Russian Roubles, unless otherwise stated

All bank loan agreements have accelerated clauses, allowing creditors to request early repayment of outstanding amounts in case of non-compliance with these covenants.

In the second half of 2014 the Group breached several covenants of the long-term credit agreements with JSC Gazprombank and JSC Sberbank of the Russian Federation. In December 2014 the Group received waivers from the creditors on non-application of provided sanctions, including the request for early repayment of outstanding amounts.

Available credit facilities

The following committed credit facilities provided by the financial institutions to the Group were unused at the end of respective reporting periods:

	31/12/2014	31/12/2013
Secured credit facilities and credit lines	9,433,979	10,000,000
Unsecured credit facilities and credit lines	29,000,000	29,500,000
Overdrafts	500,000	500,000
Less: amounts used by the Group	(30,939,118)	(23,112,562)
Total unused credit facilities	**7,994,861**	**16,887,438**

13. PENSION LIABILITIES

The Group operates a defined benefit pension plan for qualifying employees. The actuarial valuation of the Group's defined benefit obligations as at 31 December 2014 and 2013 was performed by an independent actuary.

Amounts recognised in the consolidated statement of profit or loss and other comprehensive income in respect of defined benefit plan were as follows:

	Year ended 31/12/2014	Year ended 31/12/2013
Interest on obligation	41,294	48,569
Current service cost	18,843	22,466
Actuarial gains	(135,806)	(100,347)
Gain arising from curtailment	(106,729)	(3,467)
Total	**(182,398)**	**(32,779)**

Movements in the present value of defined benefit obligations were as follows:

	Year ended 31/12/2014	Year ended 31/12/2012
Balance at beginning of the year	**604,053**	**708,841**
Interest on obligation	41,294	48,569
Current service cost	18,843	22,466
Actuarial gains	(135,806)	(100,347)
Gain arising from curtailment	(106,729)	(3,467)
Benefits paid	(77,251)	(72,009)
Balance at end of the year	**344,404**	**604,053**

The principal assumptions used for the purpose of the actuarial valuation were the following:

	31/12/2014	31/12/2013
Discount rate	13.0%	8.0%
Expected salary increase	8.4%	6.9%
Inflation	7.4%	5.0%
Mortality table	Russia 2013	Russia 2011

in thousands of Russian Roubles, unless otherwise stated

14. ACCOUNTS PAYABLE AND ACCRUALS

	31/12/2014	31/12/2013
Trade accounts payable	2,271,540	2,336,984
Dividends payable	653	1,806
Other accounts payable	42,507	63,248
Total financial liabilities	**2,314,700**	**2,402,038**
Unpaid salaries and wages	229,053	215,217
Advances received	102,953	263,906
Total non-financial liabilities	**332,006**	**479,123**
Total	**2,646,706**	**2,881,161**

The average credit period for the Group's suppliers in 2014 was 23 days (2013: 25 days).

15. PROVISIONS

	Provision for unused vacations	Provision for annual bonuses	Provision for legal claims and OREM obligations	Total
Balance at 31/12/2012	**170,833**	**201,710**	**250,039**	**622,582**
Liabilities recognised	469,048	117,247	99,694	685,989
Provisions used	(473,423)	(147,473)	(234,623)	(855,519)
Write-off of previously recognised liabilities	(116)	(3,710)	(7,002)	(10,828)
Balance at 31/12/2013	**166,342**	**167,774**	**108,108**	**442,224**
Liabilities recognised	517,877	123,133	54,196	695,206
Provisions used	(497,097)	(136,333)	(43,243)	(676,673)
Write-off of previously recognised liabilities	–	(6,362)	–	(6,362)
Disposal of liability on the sale of subsidiary	(706)	–	–	(706)
Balance at 31/12/2014	**186,416**	**148,212**	**119,061**	**453,689**

16. OTHER TAXES PAYABLE

	31/12/2014	31/12/2013
Value added tax	447,395	610,540
Property tax	117,418	175,047
Social security taxes	117,079	108,675
Other taxes	53,037	55,227
Total	**734,929**	**949,489**

in thousands of Russian Roubles, unless otherwise stated

17. STAFF COSTS

	Year ended 31/12/2014	Year ended 31/12/2013
Wages and salaries	4,656,763	4,558,126
Social security taxes	1,348,412	1,301,472
Financial assistance to current and retired employees	80,173	94,162
Defined benefit (income)/expenses	(87,885)	18,999
Total	**5,997,463**	**5,972,759**

In 2014, contribution to the Pension Fund of the Russian Federation amounted to RUB 1,006,156 thousand (2013: RUB 973,209 thousand).

18. FINANCE COSTS, NET

	Year ended 31/12/2014	Year ended 31/12/2013
Interest expense on loans and borrowings	2,795,424	1,797,817
Interest expense on pension liabilities	41,294	48,569
Total interest expense	**2,836,718**	**1,846,386**
Less: amount included in the cost of qualifying assets (note 6)	(1,992,979)	(1,151,983)
Total	**843,739**	**694,403**

19. INCOME TAX

Income tax recognised in other comprehensive income

	Year ended 31/12/2014	Year ended 31/12/2013
Revaluation of available-for-sale investments	381	1,502
Remeasurement of pension liabilities	(27,161)	(20,069)
Revaluation of property, plant and equipment	(1,210,984)	–
Total	**(1,237,764)**	**(18,567)**

Income tax recognised in profit or loss

	Year ended 31/12/2014	Year ended 31/12/2013
Current income tax	64,406	49,850
Deferred tax (benefit)/expense relating to origination and reversal of temporary differences	(734,008)	58,640
Write-off of deferred tax assets	203,410	–
Total	**(466,192)**	**108,490**

in thousands of Russian Roubles, unless otherwise stated

A reconciliation of statutory income tax to the amount of actual income tax expense recorded in profit or loss is presented as follows:

	Year ended 31/12/2014	Year ended 31/12/2013
Loss for the year	**(6,057,704)**	**(611,746)**
Income tax at statutory rate of 20%	(1,211,541)	(122,349)
Expenses not deductible for tax purposes	182,404	230,839
Unrecognised deferred tax assets	562,945	–
Total	**(466,192)**	**108,490**

20. RELATED PARTIES

Related parties include shareholders, associates, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, enter into various sale, purchase and service transactions with related parties. Transactions between the Company and its subsidiaries have been eliminated on consolidation.

During 2014 and 2013, the Group purchased goods and services from related parties as follows:

	Year ended 31/12/2014	Year ended 31/12/2013
LLC SK Soglasiye	91,021	100,167
JSC Technotest-energo	–	4,450
	91,021	**104,617**

During 2014, the Group received insurance compensation from LLC SK Soglasiye in the amount of RUB 4,464 thousand (2013: RUB 4,378 thousand).

There were no significant outstanding balances with related parties as at 31 December 2014 and 2013.

Compensation of key management personnel

Remuneration of key management personnel of the Group is presented as follows:

	Year ended 31/12/2014	Year ended 31/12/2013
Salary and performance bonuses	140,491	139,912
Termination benefits	3,219	–
Other benefits, including social security taxes	16,233	21,671
Total	**159,943**	**161,583**

in thousands of Russian Roubles, unless otherwise stated

21. COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 31 December 2014, the Group's contractual capital commitments, including VAT, amounted to RUB 9,533,042 thousand.

Future capital expenditures under contractual obligations relate to the following projects:

	31/12/2014
Reconstruction of Voronezhskaya TETs-1	4,750,467
Reconstruction of Kurskaya TETs-1	2,399,077
Reconstruction of Alexinskaya TETs	1,350,126
Reconstruction of Dyagilevskaya TETs	895,870
Other	137,502
Total	**9,533,042**

Obligations for power capacity delivery in 2011-2017

According to the agent agreements signed on 19 October 2010, the Group undertook an obligation to deliver to the market additional power capacity in the period after 2010. Initial power capacity provision dates per these agreements and current expected dates per each power unit under construction please see below in the table:

	Initial date	Expected date
Dyagilevskaya TETs	Q2 2014	Q4 2015
Aleksinskaya TETs	Q4 2014	Q2 2016
Voronezhskaya TETs-1	Q4 2015	Q1 2017
Kurskaya TETs-1	Q3 2016	Q1 2017

In 2014 the Group did not meet initial power capacity provision date for Dyagilevskaya TETs. As at the date of the issuance of these consolidated financial statements no penalties were applied to the Group.

In 2015 the Group did not meet initial power capacity provision date for Aleksinskaya TETs. As at the date of the issuance of these consolidated financial statements no penalties were applied to the Group.

The Group's management currently negotiates a change of initial power capacity provision dates for these units to expected dates as shown in the table above.

Operating leases: Group as a lessee

The land on which the Group's production facilities are located is partially owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2063. According to the term of lease agreements rent fees are revised annually by reference to an order issued by the relevant local authorities. The Group entities have a renewal option at the end of the lease period and an option to buy land at any time, at a price established by the local authorities. The Group also leases other property, plant and equipment. The respective lease agreements have an average life of 1 to 40 years and generally do not have renewal option at the end of the term. There are no restrictions placed upon the lessee by entering into these agreements.

Future minimum rental expenses under non-cancellable operating leases are as follows:

	31/12/2014	31/12/2013
Due within one year	396,349	320,151
Due from second to fifth year	715,491	510,936
Due thereafter	1,576,337	2,742,289
Total	**2,688,177**	**3,573,376**

Social commitments

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

Taxation contingencies in the Russian Federation

The Russian laws and regulations affecting business continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and as a result, transactions and activities that have not been challenged in the past may be challenged in future tax audits. Fiscal periods remain open to tax audit by the authorities in respect of taxes for the three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued for all taxes that are applicable based on its interpretations of the tax legislation. However, the tax authorities may have differing interpretations, and the effects could be significant.

Russian transfer pricing legislation was amended starting from 1 January 2012 to introduce additional reporting and documentation requirements. The tax authorities may assess additional tax charges in respect of certain transactions, including but not limited to transactions with related parties, if they consider transactions to be priced not at arm's length. As the legal practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses may have more than one interpretation, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment that could potentially impact flora and fauna, and give rise to other environmental concerns. The Group's management believes that its production facilities are in compliance with the existing environmental legislation of the regions in which it operates. However, environmental laws and regulations continue to evolve.

The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology and upgrade production equipment to meet more stringent standards.

Insurance

The insurance industry in the Russian Federation is at developing stage and many forms of insurance protection common in developed markets are not generally available.

The Group's entities do not have full coverage for property damage, business interruption and third party liabilities. Until the Group obtains adequate insurance coverage, there is a risk that losses from business interruption and third party liabilities could have a material adverse effect on the Group's operations and financial position.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of available-for-sale investments are determined with reference to quoted market prices, is considered to approximate their fair value. Management of the Group believes that the carrying value of other financial instruments, which are accounted for at amortised cost, such as cash and cash equivalents (note 10), accounts receivable (note 8), loans and borrowings (note 12) and accounts payable (note 14) also approximate their fair value.

in thousands of Russian Roubles, unless otherwise stated

23. FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Consistent with other companies in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

	31/12/2014	**31/12/2013**
Debt	30,757,245	23,204,877
Cash and cash equivalents	(988,223)	(245,030)
Net debt	**29,769,022**	**22,959,847**
Equity	29,629,974	30,269,297
Gearing ratio	**1.00**	**0.76**

Major categories of financial instruments

	31/12/2014	**31/12/2013**
Financial assets		
Available-for-sale investments	23,767	28,494
Trade and other accounts receivable	7,028,238	9,492,582
Cash and cash equivalents	988,223	245,030
Total financial assets	**8,040,228**	**9,766,106**
Financial liabilities		
Loans and borrowings	30,757,245	23,204,877
Trade and other accounts payable	2,314,700	2,402,038
Total financial liabilities	**33,071,945**	**25,606,915**

The main risks arising from the Group's financial instruments are liquidity and credit risks.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due.

Presented below is the maturity profile of the Group's loans and borrowings and accounts payable as at 31 December 2014 based on undiscounted contractual payments, including future interest payments:

	Total	**Due within one month**	**Due from one to three months**	**Due from three months to one year**	**From one to five years**	**Due thereafter**
Loans and borrowings	**41,142,962**	1,147,498	6,980,491	7,236,959	23,533,322	2,244,692
Trade and other accounts payable	**2,314,700**	1,701,941	415,445	197,314	–	–
Total	**43,457,662**	**2,849,439**	**7,395,936**	**7,434,273**	**23,533,322**	**2,244,692**

in thousands of Russian Roubles, unless otherwise stated

Presented below is the maturity profile of the Group's loans and borrowings and accounts payable as at 31 December 2013 based on undiscounted contractual payments, including future interest payments:

	Total	Due within one month	Due from one to three months	Due from three months to one year	From one to five years	Due thereafter
Loans and borrowings	**30,472,148**	593,628	3,014,070	7,979,929	15,307,081	3,577,440
Trade and other accounts payable	**2,402,038**	1,821,338	478,817	101,883	–	–
Total	**32,874,186**	**2,414,966**	**3,492,887**	**8,081,812**	**15,307,081**	**3,577,440**

As at 31 December 2014 the Group had a working capital deficiency of RUB 6,289,610 thousand. At the same time the Group had access to guaranteed credit resources in the amount of RUB 7,994,861 thousand (Note 12).

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses of the Group.

Trade receivables consist of a large number of customers spread across different industries and geographical areas of the Russian Federation. The Group's credit risk in respect of significant counterparties, with outstanding balances representing more than 5% of total accounts receivable and advances paid balance, was disclosed in note 8.

The maximum exposure of the Group to credit risk is presented as follows:

	31/12/2014	31/12/2013
Trade and other accounts receivable	7,028,238	9,492,582
Cash and cash equivalents	988,223	245,030
Total	**8,016,461**	**9,737,612**