OJSC Enel Russia

Consolidated Financial Statements

For the year ended 31 December 2014
with independent auditors' report

Contents

Совершенствуя бизнес, улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditors' report

To the Shareholders and Board of Directors of OJSC "Enel Russia"

We have audited the accompanying consolidated financial statements of OJSC "Enel Russia" and its subsidiaries (the "Group"), which comprise consolidated statement of financial position as at 31 December 2014, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Совершенствуя бизнес,
улучшаем мир

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 the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

11 March 2015

Thousands of Russian Roubles, unless otherwise stated

	Notes	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	5	110,641,596	109,822,570
Intangible assets	6	548,610	664,120
Available-for-sale financial assets		18,280	28,480
Non-current derivative assets	22	2,930,360	112,670
Other non-current assets	7	420,276	367,511
Total non-current assets		**114,559,122**	**110,995,351**
Current assets			
Inventories	9	4,261,182	3,631,263
Trade and other receivables	8	7,159,361	8,715,720
Income tax receivable		1,698,040	27,739
Current derivative asset	22	6,131,743	611,648
Cash and cash equivalents	10	7,557,580	8,618,040
Total current assets		**26,807,906**	**21,604,410**
TOTAL ASSETS		**141,367,028**	**132,599,761**
EQUITY AND LIABILITIES			
Equity	11		
Share capital		35,371,898	35,371,898
Share premium		6,818,747	6,818,747
Treasury shares		(411,060)	(411,060)
Fair value reserve		(5,010)	3,950
Hedge reserve		973,140	129,580
Retained earnings		41,005,043	36,212,889
Total equity attributable to equity holders of OJSC Enel Russia		**83,752,758**	**78,126,004**
Non-controlling interest		(36,190)	(22,400)
Total equity		**83,716,568**	**78,103,604**
Non-current liabilities			
Loans and borrowings	13	21,242,020	20,532,420
Deferred tax liabilities	12	10,169,005	8,188,585
Employee benefits	14	1,439,560	3,797,530
Provisions	17	1,303,520	903,410
Non-current derivative liabilities	22	–	68,590
Other non-current liabilities		260	270
Total non-current liabilities		**34,154,365**	**33,490,805**
Current liabilities			
Loans and borrowings	13	7,396,520	7,407,260
Current derivative liabilities	22	–	–
Trade and other payables	15	14,165,323	11,717,698
Other taxes payable	16	762,925	1,190,980
Provisions	17	1,171,327	689,414
Total current liabilities		**23,496,095**	**21,005,352**
Total liabilities		**57,650,460**	**54,496,157**
TOTAL EQUITY AND LIABILITIES		**141,367,028**	**132,599,761**

General Director E. Viale

Chief Accountant E.A. Dubtcova

11 March 2015

The notes on pages 8 to 37 are an integral part of these consolidated financial statements.

Thousands of Russian Roubles, unless otherwise stated

	Notes	For the year ended 31 December 2014	For the year ended 31 December 2013
Revenue	18	74,405,168	69,722,598
Operating expenses	19	(66,172,208)	(61,824,525)
Other operating income		1,545,360	1,954,249
Operating profit		**9,778,320**	**9,852,322**
Finance income	20	9,008,973	1,335,330
Finance costs	20	(11,724,720)	(4,501,720)
Profit before income tax		**7,062,573**	**6,685,932**
Income tax expense	12	(1,480,745)	(1,747,040)
Profit for the year		**5,581,828**	**4,938,892**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		(10,752)	(10,390)
Income tax effect		1,792	2,660
Net movement on cash flow hedges	21	1,054,450	200,429
Income tax effect	21	(210,890)	(40,086)
Net other comprehensive income to be reclassified to profit and loss in subsequent periods		**834,600**	**152,613**
Actuarial gains/(losses) on defined benefits plans	14	1,466,885	(1,134,890)
Income tax effect	14	(293,377)	235,462
Net other comprehensive income not being reclassified to profit and loss in subsequent periods		**1,173,508**	**(899,428)**
Total comprehensive income for the year		**7,589,936**	**4,192,078**
Profit attributable to:			
Owners of OJSC Enel Russia		5,595,618	4,963,105
Non-controlling interest		(13,790)	(24,213)
Total comprehensive income attributable to:			
Owners of OJSC Enel Russia		7,603,726	4,216,290
Non-controlling interest		(13,790)	(24,213)
Earnings per ordinary share for profit attributable to the equity holders of OJSC Enel Russia – basic and diluted (in Russian Roubles per share)	11	**0.1589**	**0.1409**

General Director E. Viale

Chief Accountant E.A. Dubtcova

11 March 2015

Thousands of Russian Roubles, unless otherwise stated

	Note	For the year ended 31 December 2014	For the year ended 31 December 2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**7,062,573**	**6,685,932**
Adjustments for:			
Depreciation and amortisation	5, 6, 19	6,442,790	6,183,580
Loss on disposal of property, plant and equipment	19	13,060	766,850
Impairment loss in respect of property, plant and equipment	5	1,961,580	–
Finance income	20	(9,008,973)	(1,335,330)
Finance costs	20	11,724,720	4,501,720
Loss on sales of trade receivables		–	71,486
Change in allowance for impairment of trade and other receivables	8	225,640	811,683
Change in other provisions	17	835,090	213,462
Changes in defined benefit obligation	14	(977,542)	(208,960)
Adjustments for other non-cash transactions		(11,431)	(12,436)
		18,267,507	**17,677,987**
Increase in trade and other receivables		1,065,777	(515,684)
Increase in inventories		(589,443)	(199,450)
Increase in trade and other payables		2,352,948	1,198,712
Increase/(decrease) in taxes payable, other than income tax		(428,055)	379,680
Net cash inflow from operating activities before income tax paid		**20,648,734**	**18,541,245**
Dividends paid		(1,976,972)	–
Income tax paid		(1,676,900)	(861,000)
Net cash from operating activities		**16,994,862**	**17,680,245**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and other non-current assets		(10,489,124)	(8,560,883)
Proceeds from disposal of property, plant and equipment		–	30,537
Interest received		590,259	275,031
Net cash used in investing activities		**(9,898,865)**	**(8,255,315)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of current loans and borrowings		–	1,000,000
Repayment of loans and borrowings		(7,729,585)	(5,335,036)
Interest paid		(1,418,142)	(1,647,834)
Proceeds from derivatives		1,279,813	9,326,262
Payment on derivatives		(288,543)	(9,500,762)
Net cash from financing activities		**(8,156,457)**	**(6,157,370)**
Net increase in cash and cash equivalents		**(1,060,460)**	**3,267,560**
Cash and cash equivalents at 1 January		**8,618,040**	**5,350,480**
Cash and cash equivalents at 31 December	10	**7,557,580**	**8,618,040**

General Director E. Viale

Chief Accountant E.A. Dubtcova

11 March 2015

Thousands of Russian Roubles, unless otherwise stated

		Attributable to equity holders of OJSC Enel Russia								
	Note	Share capital	Share premium	Treasury shares	Fair value reserve	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2013		35,371,898	6,818,747	(411,060)	11,680	(30,763)	32,149,212	73,909,714	1,813	73,911,527
Profit for the year		–	–	–	–	–	4,963,105	4,963,105	(24,213)	4,938,892
Other comprehensive income										
Net movement on cash flow hedges, net of tax	21	–	–	–	–	160,343	–	160,343	–	160,343
Net change in fair value of available-for-sale financial assets, net of tax		–	–	–	(7,730)	–	–	(7,730)	–	(7,730)
Actuarial losses on defined benefits plans, net of tax	14	–	–	–	–	–	(899,428)	(899,428)	–	(899,428)
Total other comprehensive income		–	–	–	(7,730)	160,343	(899,428)	(746,815)	–	(746,815)
Total comprehensive income for the year		–	–	–	(7,730)	160,343	4,063,677	4,216,290	(24,213)	4,192,077
Balance at 31 December 2013		35,371,898	6,818,747	(411,060)	3,950	129,580	36,212,889	78,126,004	(22,400)	78,103,604

General Director E. Viale

Chief Accountant E.A. Dubtcova

11 March 2015

The notes on pages 8 to 37 are an integral part of these consolidated financial statements.

Thousands of Russian Roubles, unless otherwise stated

	Note	Attributable to equity holders of OJSC Enel Russia Share capital	Share premium	Treasury shares	Fair value reserve	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2014		35,371,898	6,818,747	(411,060)	3,950	129,580	36,212,889	78,126,004	(22,400)	78,103,604
Profit for the year		–	–	–	–	–	5,595,618	5,595,618	(13,790)	5,581,828
Distribution of dividends		–	–	–	–	–	(1,976,972)	(1,976,972)	–	(1,976,972)
Other comprehensive income										
Net movement on cash flow hedges, net of tax	21	–	–	–	–	843,560	–	843,560	–	843,560
Net change in fair value of available-for-sale financial assets, net of tax		–	–	–	(8,960)	–	–	(8,960)	–	(8,960)
Actuarial gains on defined benefits plans, net of tax	14	–	–	–	–	–	1,173,508	1,173,508	–	1,173,508
Total other comprehensive income		–	–	–	(8,960)	843,560	1,173,508	2,008,108	–	2,008,108
Total comprehensive income for the year		–	–	–	(8,960)	843,560	6,769,126	7,603,726	(13,790)	7,589,936
Balance at 31 December 2014		35,371,898	6,818,747	(411,060)	(5,010)	973,140	41,005,043	83,752,758	(36,190)	83,716,568

General Director E. Viale

Chief Accountant E.A. Dubtcova

11 March 2015

The notes on pages 8 to 37 are an integral part of these consolidated financial statements.

1 BACKGROUND

a) Organisation and operations

Open Joint-Stock Company “Enel OGK-5” (the “Company”, previously known as OJSC “The Fifth Generating Company of the Wholesale Electric Power Market”) was established on 27 October 2004 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Government of the Russian Federation on 1 September 2003. On 8 August 2014 Open Joint-Stock Company “Enel OGK-5” was renamed into Open Joint-Stock Company “Enel Russia”.

Enel Investment Holding B.V. is a parent company with share in the net assets of the Company amounted 56.43%. Ultimate parent company is Enel S.p.A., listed on Milan Stock Exchange.

On 11 May 2012 – PFR Partners Fund I Limited purchased 9,350,472,893 (26.43%) of voting shares of Enel OGK-5 OJSC from Inter RAO UES OJSC and became minority shareholder of the Company. PFR Partners Fund I Limited is non-public investment fund incorporated in Cyprus.

The Enel Russia Group (the “Group”) operates 4 State District Power Plants (“SDPP”) and its principal activity is electricity and heat generation. Furthermore, the Company owns:

- a wholly-owned subsidiary LLC “OGK-5 Finance”;
- 60% interest subsidiary OJSC “Teploprogress”. The State Property Committee of Sredneuralsk holds the remaining 40% ownership interest in OJSC “Teploprogress”.

The Company is registered by the Lenin District Inspectorate of the Russian Federation Ministry of Taxation of Yekaterinburg, Sverdlovsk Region. The Company’s office is located at bld. 1, 7, Pavlovskaya, 115093, Moscow, Russia.

b) Relations with the State and its influence on the Group’s activities

The Group’s customer base includes a large number of entities controlled by or related to the state.

The Government of the Russian Federation directly affects the Group’s operations through regulation by the Federal Tariff Service (“FST”), with respect to its sale of energy and capacity, and by the Regional Energy Commissions (“RECs”) or by the Regional Tariff Commission (“RTC”), with respect to its heat energy and other products. The operations of all generating facilities are coordinated by OJSC “System Operator – the Central Dispatch Unit of Unified Energy System” (“SO-CDU”) in order to meet system requirements in an efficient manner. SO-CDU is controlled by NP “Administrator of trade system”.

Tariffs for sales of electricity for householders, heat and other products are calculated on the basis of legislative documents, which regulate pricing of heat and electricity. Tariffs are calculated in accordance with the “Cost-Plus” method and “Indexation” method. Costs are determined under the Regulations on Accounting and Reporting of the Russian Federation, a basis of accounting which significantly differs from International Financial Reporting Standards (“IFRS”).

2 BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements (“Financial Statements”) have been prepared in accordance with International Financial Reporting Standard (“IFRS”). Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with International Financial Reporting Standards (“IFRS”).

b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit or loss, financial investments classified as available-for sale are stated at fair value.

2 BASIS OF PREPARATION (continued)

c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the Company’s functional currency and the currency in which these financial statements are presented.

All financial information presented in RUB has been rounded to the nearest thousand, except where otherwise indicated. Each entity in the Group determines the same functional currency and items included in the financial statements of each entity are measured using that functional currency

d) Use of judgments, estimates and assumptions and changes thereof

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual outcomes may differ from those estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the consolidated financial statements is described below:

Impairment of trade accounts receivable

Management believes that the majority of customers, the balances of which are included in trade receivables, comprise a single class, as they bear the same characteristics. Those customers belong to the same wholesale market of electric power, which is regulated by NP ATS (Non-commercial Partnership “Administrator of Trade System”).

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analysis of expected future cash flows. Further details are given in Note 8.

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates. The Group policy is to periodically review the estimated useful lives of its property plant and equipment. This review during 2014 indicated that for certain asset categories and individual assets useful lives were generally longer than the useful lives used for depreciation purposes in the Group financial statements. As a result the Group revised the estimated useful lives for such categories of property, plant and equipment effective 1 July 2014. The net effect of this change in estimate was to reduce 2014 depreciation by RR 247,310 thousand. The effect on future periods cannot be reasonably estimated as it will depend on the future capital expenditure for such asset categories.

Further details about the useful lives applied are given in Note 3 (e).

Impairment of non-current assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted as arm’s length transaction, for similar assets or at observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the management approve budgets for the next five years The recoverable amount is highly and mostly sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes in a terminal period. 1% percentage point negative change in each individual assumption may lead to the need to recognize an impairment loss.

In identifying CGUs, management took account of the specific nature of its assets and the business in which it is involved (geographical area, regulatory framework, etc.), verifying that the cash inflows of a given group of assets were largely interdependent with other groups of assets.

2 BASIS OF PREPARATION (continued)

d) Use of judgments, estimates and assumptions and changes thereof (continued)

Pension benefits

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency of benefits payment and with maturities approximating the terms of the related benefit liabilities.

Further details about the assumptions used are given in Note 14.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Further details about the assumptions used are given in Note 4.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities

a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The non-controlling interest has been presented as part of equity.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iii) Transactions with non-controlling interest

The Group applies a policy of treating transactions with non-controlling interest as transactions with the owners in their capacity of owners. In case of acquisition of non-controlling interest, the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recognised in equity.

b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial instruments

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables are represented by trade receivables (Note 8), long-term loans issued (Note 7), bank deposits and bank bills of exchange.

Cash and cash equivalent comprises cash in hand and call deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Held-to-maturity investments

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Held to maturity investments and loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the profit or loss within finance items (net), in the period in which they arise. Interest income from financial assets at fair value through profit or loss is recognised in the comprehensive income as part of finance income when the Group's right to receive payments is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit or loss as gains and losses from investment securities.

Dividends on available-for-sale equity instruments are recognised in the comprehensive income as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial instruments (continued)

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the comprehensive income. Impairment losses recognised in the comprehensive income on equity instruments are not reversed through profit or loss.

Except for loans and receivables and available-for-sale investments, the Group did not have other financial assets in the year ended 31 December 2013 or the year ended 31 December 2014.

Derivative financial instruments

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative under IAS 39 are recognized in the income statement in cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the income statement in other financial expenses.

Amounts recognized as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the nonfinancial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Equity

Ordinary shares

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

Repurchase of share capital (treasury shares)

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

Dividends

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

e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other income” in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation property, plant and equipment is calculated on a straight-line basis over the estimated useful lives of the asset when it is available for use.

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

Electricity and heat generation	9-60 years
Electricity transmission	8-33 years
Heating networks	15-41 years
Other	6-63 years

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Intangible assets

(i) Patents and licenses

Patents and licenses that are acquired by the Group are measured on initial recognition at cost at the acquisition date.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

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

The amortization charge on all intangible assets with finite useful lives is accrued on a straight-line basis over their useful life starting from the month following the month in which the asset is available for use.

The amortization charge is recognized in the income statement as an operating expense.

The useful life of intangible assets is 5-10 years.

g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

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

Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

h) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

i) Borrowings

Borrowings are recognised initially at their fair value. Fair value is determined using the prevailing market rate of interest for similar instruments, if significantly different from the transaction price. In subsequent periods, borrowing are stated at amortised cost using the effective interest rate; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the debt obligation.

The Group capitalises borrowing costs in qualifying assets in accordance with IAS 23 *Borrowing Costs*.

j) Employee benefits

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group’s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Employee benefits (continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions related to defined benefit pension plans are recorded in other comprehensive income.

Gains or losses resulting from a plan amendment or a curtailment and related to defined benefit pension plans shall be recognized as an expense.

k) Provisions

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

(i) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for (see Note 17).

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

l) Environmental obligations

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

m) Impairment

(i) Financial assets

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

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

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

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Impairment (continued)

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

n) Revenue

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer of electricity and heat or non-utility goods and services. Revenue is measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services sold/provided. Revenue is stated net of value added tax.

o) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and impairment losses on financial assets other than trade receivables (see Note 22). Borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

p) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity, such as items recognised in equity at preparing the Group's first set of consolidated IFRS financial statements, or in other comprehensive income.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Income taxes (continued)

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

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

q) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

r) Segment reporting

The Group has a single reportable segment – the generation of electric power and heat in the Russian Federation as the management does not review profit measures for individual SDPPs or any other components in order to make a decision about allocation of resources. The Group generates its revenues from the generation of electricity and heat in the Russian Federation. The Group holds assets in the same geographical area – the Russian Federation.

s) New and amended standards and interpretations

The Group applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2014.

The nature and the impact of each new standards and amendments is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group since none of the entities of the Group has any offsetting arrangements.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

s) New and amended standards and interpretations (continued)

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period.

4 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

b) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes only.

c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

d) Derivatives

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Thousands of Russian Roubles, unless otherwise stated

5 PROPERTY, PLANT AND EQUIPMENT

	Heat and electricity generation	Electricity transmission	Heating networks	Other	Construction in progress	Total
Cost						
At 1 January 2014	**70,069,513**	**12,572,125**	**604,530**	**21,039,934**	**31,078,220**	**135,364,322**
Additions	–	–	–	98,640	9,428,740	**9,527,380**
Transfers from construction in progress	8,880,763	1,184,987	132,589	6,269,288	(16,467,627)	**–**
Disposals	(690,576)	(434)	(89)	(78,878)	–	**(769,977)**
Impariment	(14,579)	–	–	–	(1,947,000)	**(1,961,579)**
At 31 December 2014	**78,245,121**	**13,756,678**	**737,030**	**27,328,984**	**22,092,333**	**142,160,146**
Accumulated depreciation						
At 1 January 2014	**15,139,752**	**2,939,805**	**150,489**	**7,311,706**	**–**	**25,541,752**
Depreciation charge	3,450,338	806,075	22,832	1,891,465	–	**6,170,710**
Disposals	(121,882)	(426)	(39)	(71,565)	–	**(193,912)**
At 31 December 2014	**18,468,208**	**3,745454**	**173,282**	**9,131,606**	**–**	**31,518,550**
Net book value at 1 January 2014	**54,929,761**	**9,632,320**	**454,041**	**13,728,228**	**31,078,220**	**109,822,570**
Net book value at 31 December 2014	**59,776,913**	**10,011,224**	**563,748**	**18,197,378**	**22,092,333**	**110,641,596**

	Heat and electricity generation	Electricity transmission	Heating networks	Other	Construction in progress	Total
Cost						
At 1 January 2013	**66,377,679**	**7,813,016**	**604,780**	**20,354,414**	**32,820,119**	**127,970,008**
Additions	–	–	–	162,225	8,252,824	**8,415,049**
Transfers from construction in progress	4,600,948	4,765,248	–	628,527	(9,994,723)	**–**
Disposals	(909,114)	(6,139)	(250)	(105,232)	–	**(1,020,735)**
At 31 December 2013	**70,069,513**	**12,572,125**	**604,530**	**21,039,934**	**31,078,220**	**135,364,322**
Accumulated depreciation						
At 1 January 2013	**11,572,122**	**2,174,112**	**132,926**	**5,958,355**	**–**	**19,837,515**
Depreciation charge	3,708,206	770,802	17,692	1,414,419	–	**5,911,119**
Disposals	(140,576)	(5,109)	(129)	(61,068)	–	**(206,882)**
At 31 December 2013	**15,139,752**	**2,939,805**	**150,489**	**7,311,706**	**–**	**25,541,752**
Net book value at 1 January 2013	**54,805,557**	**5,638,904**	**471,854**	**14,396,059**	**32,820,119**	**108,132,493**
Net book value at 31 December 2013	**54,929,761**	**9,632,320**	**454,041**	**13,728,228**	**31,078,220**	**109,822,570**

At 31 December 2014 construction in progress includes prepayments for property, plant and equipment of RUB 3,339,744 thousand (31 December 2013: RUB 4,536,816thousand).

The Group recognized impairment loss in respect of the suspended construction in progress in the amount of RUB 1,947,000 thousand and obsolete property, plant and equipment in the amount of RUB 14,579 thousand. Recoverable amount of the suspended project was estimated as the fair value of equipment yet to be delivered less cost to sell and comprised RUB 2,602,000 thousand.

During the year ended 31 December 2014 the Group capitalized no borrowing costs into property, plant or equipment. The Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on specific borrowings attributable to qualifying assets.

As at 31 December 2014 and 31 December 2013, there were no any restrictions on title, and no property, plant and equipment were pledged as security for liabilities.

Thousands of Russian Roubles, unless otherwise stated

5 PROPERTY, PLANT AND EQUIPMENT (continued)

Operating leases

The assets transferred to the Group upon privatization did not include the land on which the Company's buildings and facilities are situated. The Group holds lease agreements in respect of these land plots with local governments.

The leases typically run for an initial period of 5 to 45 years with an option to renew the lease after that date. The lease payments are subject to regular reviews that may result in adjustments to reflect market conditions.

Non-cancellable operating lease rentals are payable for land plots as follows:

	31 December 2014	31 December 2013
Not later than one year	52,139	47,432
Later than one year and not later than five years	123,573	149,830
Later than five years	61,455	52,130
Total	**237,167**	**249,392**

6 INTANGIBLE ASSETS

	Patents and licenses	Software	Total
Cost			
At 1 January 2014	**143,577**	**1,224,667**	**1,368,244**
Additions	34,456	119,201	**153,657**
Disposals	(38,797)	(10,932)	**(49,729)**
At 31 December 2014	**139,236**	**1,332,936**	**1,472,172**
Accumulated amortization			
At 1 January 2014	**93,852**	**610,272**	**704,124**
Amortization charge	30,727	238,435	**269,162**
Disposal	(38,797)	(10,927)	**(49,724)**
At 31 December 2014	**85,782**	**837,780**	**923,562**
Net book value at 1 January 2014	**49,725**	**614,395**	**664,120**
Net book value at 31 December 2014	**53,454**	**495,156**	**548,610**

	Patents and licenses	Software	Total
Cost			
At 1 January 2013	**123,231**	**1,126,732**	**1,250,052**
Additions	20,488	100,377	**120,776**
Disposals	(142)	(2,442)	**(2,584)**
At 31 December 2013	**143,577**	**1,224,667**	**1,368,244**
Accumulated amortization			
At 1 January 2013	**53,020**	**387,156**	**440,176**
Amortization charge	40,974	225,558	**266,532**
Disposal	(142)	(2,442)	**(2,584)**
At 31 December 2013	**93,852**	**610,272**	**704,124**
Net book value at 1 January 2013	**70,300**	**739,576**	**809,876**
Net book value at 31 December 2013	**49,725**	**614,395**	**664,120**

Intangible assets mostly represent the costs associated with SAP/R3 implementation.

Thousands of Russian Roubles, unless otherwise stated

7 OTHER NON-CURRENT ASSETS

	31 December 2014	31 December 2013
Long-term receivables	110,960	147,650
Promissory notes	0,0	14,060
Other	309,316	205,801
Total	**420,276**	**367,511**

Long-term receivables include mostly long-term RUB loans given to the Group’s employees for 10-15 years.

8 TRADE AND OTHER RECEIVABLES

	31 December 2014	31 December 2013
Trade receivables (net of impairment allowance of RUB 1,970,770 thousand at 31 December 2014, RUB 1,842,323 thousand at 31 December 2013)	6,482,049	7,101,575
Prepayments issued to suppliers (net of impairment allowance of RUB 36,679 thousand at 31 December 2013)	309,621	667,895
Value added tax recoverable (net of impairment allowance of RUB 313,321 thousand at 31 December 2014 and at 31 December 2013)	195,115	168,870
Promissory notes	–	164,553
Other receivables	172,576	612,827
Total	**7,159,361**	**8,715,720**

The table below provides information about the changes in allowance for impairment of receivables:

	For the year ended 31 December 2014	For the year ended 31 December 2013
At 1 January	2,192,323	1,366,804
Charge for the year	608,010	1,169,408
Unused amounts reversed	(382,370)	(343,870)
Utilized	(133,872)	(19)
At 31 December	**2,284,091**	**2,192,323**

9 INVENTORIES

	31 December 2014	31 December 2013
Fuel supplies	2,651,200	2,456,870
Materials and supplies	1,435,520	1,021,790
Spare parts and other inventories	174,792	165,533
Total inventories	**4,261,512**	**3,644,193**
Less: allowance for obsolescence of inventories	(330)	(12,930)
Total	**4,261,182**	**3,631,263**

As at 31 December 2014 and as at 31 December 2013 none of the inventories held were pledged as collateral under loan agreements.

10 CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Bank balances	618,287	162,425
Call deposits	6,939,293	8,455,615
Total	**7,557,580**	**8,618,040**

The Group’s exposure to interest rate and currency risk is disclosed in Note 22.

11 EQUITY

a) Share capital

The Group's share capital as at 31 December 2014 and 2013 was RUB 35,371,898 thousand comprising 35,371,898,370 ordinary shares with a par value of RUB 1.00. All shares authorised are issued and fully paid.

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

On 26 June 2014, the Shareholders' meeting approved the allocation of 40% of the Company's IFRS 2013 net ordinary profit, totalling approximately RUB 1.977 billion, to the payment of a 0.0559 RUR / share dividend. The total amount of dividends was fully paid during 2014.

b) Treasury shares

The nominal value of treasury shares as at 31 December 2014 and 2013 was RUB 156,222 thousand.

c) Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below.

	For the year ended 31 December 2014	For the year ended 31 December 2013
Weighted average number of shares issued, in thousands	35,371,898	35,371,898
Adjustment for weighted average number of treasury shares, in thousands	(156,222)	(156,222)
Weighted average number of shares outstanding, in thousands	**35,215,676**	**35,215,676**
Profit attributable to shareholders of OJSC Enel Russia	5,595,618	4,963,106
Profit per share – basic and diluted (RUB per share)	**0.1589**	**0.1409**

12 INCOME TAXES

	For the year ended 31 December 2014	For the year ended 31 December 2013
Current income tax expense	4,592	1,065,736
Deferred tax expense	1,476,153	681,304
Total income tax expense	**1,480,745**	**1,747,040**

During the year ended 31 December 2014, the Group entities were subject to 20% income tax rate on taxable profits. This rate was used for the calculation of the deferred tax assets and liabilities.

In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may be accrued even where there is a net consolidated tax loss.

A reconciliation of the theoretical income tax, calculated at the tax rate effective in the Russian Federation, to the amount of actual income tax expense recorded in the statement of comprehensive income, is as follows:

	For the year ended 31 December 2014		For the year ended 31 December 2013	
Profit before income tax	**7,062,573**	**100%**	**6,685,932**	**100%**
Income tax at applicable tax rate	(1,412,515)	20%	(1,337,186)	20%
(Non-deductible expenses) / non-taxable income, net	(68,230)	0.9%	(158,877)	2%
Other	–	–	(250,977)	4%
	(1,480,745)	**20.6%**	**(1,747,040)**	**26%**

Thousands of Russian Roubles, unless otherwise stated

12 INCOME TAXES (continued)

The tax effects of temporary differences that give rise to deferred taxation are presented below:

	1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2014
Tax effect of deductible temporary differences				
Trade and other receivables	394,177	136,437	–	530,614
Non-current loans and borrowings and derivatives	13,718	197,172	(210,890)	–
Provisions	237,062	568,737	–	805,799
Employee benefits	739,729	(168,021)	(293,377)	278,331
Other	212,524	206,353	–	418,877
Deferred tax assets	**1,597,210**	**940,678**	**(504,267)**	**2,033,621**
Tax effect of taxable temporary differences				
Property, plant and equipment	(9,028,441)	(645,280)	–	(9,673,721)
Derivatives	(144,489)	(1,667,753)	–	(1,812,242)
Trade and other receivables	(490,985)	(58,107)	–	(549,092)
Other	(121,880)	(45,691)	–	(167,571)
Deferred tax liabilities	**(9,785,795)**	**(2,416,831)**	**–**	**(12,202,626)**
Net deferred tax liabilities	**(8,188,585)**	**(1,476,153)**	**(504,267)**	**(10,169,005)**

	1 January 2013	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2013
Tax effect of deductible temporary differences				
Trade and other receivables	271,517	122,660	–	394,177
Non-current loans and borrowings and derivatives	103,381	(49,060)	(40,603)	13,718
Provisions	191,517	45,545	–	237,062
Employee benefits	519,424	(15,157)	235,462	739,729
Other	274,415	(64,552)	2,660	212,524
Deferred tax assets	**1,360,254**	**39,438**	**197,518**	**1,597,210**
Tax effect of taxable temporary differences				
Property, plant and equipment	(8,788,583)	(239,858)	–	(9,028,441)
Trade and other receivables	(173,839)	(317,146)	–	(490,985)
Other	(102,631)	(163,737)	–	(266,369)
Deferred tax liabilities	**(9,065,053)**	**(720,741)**	**–**	**(9,785,795)**
Net deferred tax liabilities	**(7,704,799)**	**(681,304)**	**197,518**	**(8,188,585)**

13 LOANS AND BORROWINGS

			31 December 2014		31 December 2013	
	Currency	Maturity	Carrying value	Face value	Carrying value	Face value
Non-current borrowings						
Royal Bank of Scotland	EUR	2022	8,191,879	8,710,369	6,172,894	6,550,255
EBRD	EUR	2021	4,669,194	4,748,019	3,648,898	3,692,265
EIB	EUR	2025	8,380,947	8,427,902	5,710,628	5,735,706
Sberbank	RUB	2015	–	–	5,000,000	5,000,000
Total non-current borrowings			**21,242,020**	**21,886,290**	**20,532,420**	**20,978,226**

Thousands of Russian Roubles, unless otherwise stated

13 LOANS AND BORROWINGS (continued)

		31 December 2014		31 December 2013	
	Currency	Carrying value	Face value	Carrying value	Face value
Current borrowings and current portion of non-current borrowings					
Commercial papers	RUB	–	–	5,000,000	5,000,000
Sberbank	RUB	5,000,000	5,000,000	1,000,000	1,000,000
Current portion of non-current borrowings (Royal Bank of Scotland)	EUR	1,244,338	1,244,338	818,782	818,782
Current portion of non-current borrowings (EIB)	EUR	288,903	288,903	20,439	20,439
Current portion of non-current borrowings (EBRD)	EUR	863,279	863,279	568,039	568,039
Total current borrowings		**7,396,520**	**7,396,520**	**7,407,260**	**7,407,260**

At the end of 2014 the interest rates varied from 1.48% to 5.04% for borrowings nominated in EUR and rom 7% to 9% for borrowings nominated in RUR. All loans and borrowings are unsecured. The amount of undrawn borrowing facilities was RUB 20,258,849 thousand as at 31 December 2014.

14 EMPLOYEE BENEFITS

The Group operates a defined benefit pension plan under Collective agreement, which requires contributions to be made to a separately administered fund. The Company changed the fund effective 1 January 2015. The new fund applies different method to calculate required contributions which ultimately has an impact on the amount of benefits. Additionally, the required period of service to be eligible for the defined benefit pension plan has been changed. The total impact of above changes to financial statements is a gain of RUB 1,227,259 thousand and is recognised as a plan amendment.

The tables below provide information about the employee benefit obligations and actuarial estimations used for the year ended 31 December 2014 and for the year ended 31 December 2013. Amounts recognised in the Group's consolidated statement of financial position are as follows:

	31 December 2014	31 December 2013
Present value of defined benefit obligation	1,402,212	3,768,409
Net pension liabilities in the statement of financial position	**1,402,212**	**3,768,409**

Amounts recognised in profit or loss are as follows:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Current service cost	287,876	249,856
Interest cost	286,317	167,028
Net actuarial loss recognized in the period	(38,159)	39,171
Curtailment and plan amendments effect	–	(11,376)
Past Service Cost due to Plan Amendment	(1,227,259)	–
Net (gain)/expense recognized in profit or loss	**(691,225)**	**444,679**

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

	For the year ended 31 December 2014	For the year ended 31 December 2013
Present value of defined benefit obligations at the beginning of year	**3,768,409**	**2,647,620**
Current service cost	287,876	249,856
Past service cost due to plan amendment	(1,227,259)	–
Interest cost	286,317	167,028
Remeasurements recognized in other comprehensive income, including:	(1,465,682)	1,173,461
(Gain)/loss due to demographic assumption change	(15,971)	1,128,428
(Gain)/loss due to financial assumption changes	(894,893)	(313,889)
(Gain)/loss due to experience adjustment	(554,818)	358,922
Benefits paid	(209,290)	(497,351)
Immediate recognition of (gain)/losses arising during the year	(38,159)	39,171
Curtailment and plan amendments effect	–	(11,376)
Present value of defined benefit obligation at the end of period	**1,402,212**	**3,768,409**

Thousands of Russian Roubles, unless otherwise stated

14 EMPLOYEE BENEFITS (continued)

Principal actuarial assumptions are as follows:

	31 December 2014	31 December 2013
Nominal discount rate	13.89%	7.90%
Future salary increase	5.0%	6.0%

The mortality data was applied that has been used is Russian Federation 2011.

The retirement schedule was based on the Company's statistics on retirements.

Funded status of the plan is as follows:

	31 December 2014	31 December 2013
Present value of defined benefit obligation	1,402,212	3,768,409
Deficit in plan	1,402,212	3,768,409
Losses arising from experience adjustments on plan liabilities	–	–

Expected benefit payments under the schemes during the year ended 31 December 2015 are RUB 210,874 thousand.

The average duration of the defined benefit plan obligation at the end of the reporting period is 7.1 years (2013: 9.3 years).

Included in the employee benefits in the consolidated balance sheet are the amounts payable under the long term employees incentive plan of RUB 37,348 thousand as at 31 December 2014 (2013: RUB 29,121 thousand).

A quantitative sensitivity analysis for significant assumption as at 31 December 2014 is as shown below:

Assumptions	**Discount rate**		**Inflation rate**		**Salary increase**	
Sensitivity level	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on the net defined benefit obligation	(66,025)	74,138	3,473	(3,265)	73,864	(70,040)

Assumptions	**Turnover**		**Life expectancy**	
Sensitivity level	1% increase	1% decrease	1 year increase	1 year decrease
Impact on the net defined benefit obligation	(25,668)	27,701	3,805	(4,150)

15 TRADE AND OTHER PAYABLES

	31 December 2014	31 December 2013
Trade payables	13,373,103	10,007,031
Accrued liabilities and other payables	708,660	1,638,827
Interest payable	83,560	71,840
Total	**14,165,323**	**11,717,698**

Management believes that the majority of suppliers, balances of which are included into trade payables, comprise a single class, as they bear the same characteristics. Those suppliers are mainly providers of fuel, repair and maintenance services.

16 OTHER TAXES PAYABLE

	31 December 2014	31 December 2013
Value added tax	522,390	1,120,290
Property tax	180,056	5,620
Payroll tax	–	5,340
Other taxes	60,479	59,730
Total	**762,925**	**1,190,980**

Thousands of Russian Roubles, unless otherwise stated

17 PROVISIONS

	Restructu-ring	Onerous contract	Provision for legal claims	Decommis-sioning provision	Personnel related provision	Other	Total
Balance at 1 January 2014	**343,986**	**599,890**	**21,066**	**146,486**	**407,515**	**73,881**	**1,592,824**
Provisions made during the period	–	144,970	1,498	509,408	893,918	372,453	1,922,247
Unwinding of discount	17,217	44,946	–	3,921	–	–	66,084
Provision reversed during the period	–	(51,191)	(21,831)	–	–	–	(73,022)
Provisions used during the period	(57,941)	(120,213)	–	–	(813,957)	(41,175)	(1,033,286)
Balance at 31 December 2014	**303,262**	**618,402**	**733**	**659,815**	**487,476**	**405,159**	**2,474,847**
Non-current	207,092	492,313	–	604,115	–	–	1,303,520
Current	96,170	126,089	733	55,700	487,476	405,159	1,171,327
Total	**303,262**	**618,402**	**733**	**659,815**	**487,476**	**405,159**	**2,474,847**

	Restructu-ring	Onerous contract	Provision for legal claims	Decommis-sioning provision	Personnel related provision	Other	Total
Balance at 1 January 2013	**290,838**	**484,134**	**42,084**	**140,529**	**331,581**	**62,683**	**1,351,849**
Provisions made during the period	343,987	212,295	21,067	–	832,574	109,325	1,519248
Unwinding of discount	–	24,010	–	5,957	–	136	30,103
Provision reversed during the period	(184,166)	–	(40,600)	–	–	(87,909)	(312,675)
Provisions used during the period	(106,673)	(120,549)	(1,485)	–	(756,640)	(10,354)	(995,701)
Balance at 31 December 2013	**343,986**	**599,890**	**21,066**	**146,486**	**407,515**	**73,881**	**1,592,824**
Non-current	278,315	478,609	–	146,486	–	–	903,410
Current	65,671	121,281	21,066	–	407,515	73,881	689,414
Total	**343,986**	**599,890**	**21,066**	**146,486**	**407,515**	**73,881**	**1,592,824**

a) Restructuring

Restructuring provision relates to the ongoing plan of optimization of organizational structure and redundancy of employees.

b) Onerous contract

The onerous contract provision relates to future supplies to certain customers from the Caucasus region. The provision is based on estimates of incremental costs associated with electricity supplies. The Group expects the resulting outflow of economic benefits over the next five years.

c) Provision for legal claims

Legal provision at the yearend relates to individually minor litigations.

d) Decommissioning provision

During 2014, a provision in respect of the dismantling expenses of certain individual items of property, plant and equipment was accrued in the amount of RUR 509,407 thousand. Dismantling works will take place in 2015 and 2016.

Land reclamation provision of RUR 150,406 thousand as of 31 December 2014 (as of 31 December 2013: RUR 146,486 thousand) relates to incremental decommissioning cost associated with future restoration of the underlying ash dump.

e) Other

Other provisions include provision for environmental charges.

Thousands of Russian Roubles, unless otherwise stated

18 REVENUE

	For the year ended 31 December 2014	For the year ended 31 December 2013
Power	52,937,488	48,873,596
Capacity	17,150,119	16,667,879
Heating	3,825,570	3,602,410
Water for heating network	18,021	15,078
Rent	25,744	52,322
Water circulation	296,482	322,548
Other	151,744	188,766
Total	**74,405,168**	**69,722,598**

19 OPERATING EXPENSES

	Notes	For the year ended 31 December 2014	For the year ended 31 December 2013
Fuel cost		38,762,393	36,877,743
Purchased electricity		6,450,190	5,762,040
Employee benefits		3,154,060	4,141,719
Depreciation and amortisation of property, plant and equipment and intangible assets	5	6,442,790	6,183,580
Provisions	17	835,090	213,462
Impairment loss in respect of property, plant and equipment	5	1,961,580	–
Taxes other than income tax and payroll taxes		916,140	931,360
Repairs and technical maintenance		1,699,360	1,294,560
Fees to Trade System Administrator, Centre of financial settlements and System Operator		1,100,300	1,009,800
Water usage		895,190	781,590
Raw materials and supplies		1,166,927	971,740
Advisory, legal and information services		938,240	814,360
Security		225,590	201,520
Allowance for impairment of trade and other receivables	8	225,640	811,683
Lease costs		154,850	164,300
Transport cost		92,910	91,940
Loss on disposal of property, plant and equipment	5	13,060	766,850
Insurance		184,380	167,320
Pollution cost		141,560	115,390
Bank services		3,250	30,880
Media and communication cost		70,170	62,700
Travel cost		73,060	83,950
Public utilities		116,290	103,370
Other		549,188	242,668
Total		**66,172,208**	**61,824,525**

Employee benefits expenses comprise the following:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Wages and other benefits to employees and related taxes	3,716,992	3,474,540
Contributions to State Pension Fund	414,610	389,528
Non-governmental pension fund expenses (Note 14)	(977,542)	277,651
Total	**3,154,060**	**4,141,719**

Thousands of Russian Roubles, unless otherwise stated

20 FINANCE INCOME AND FINANCE COSTS

	For the year ended 31 December 2014	For the year ended 31 December 2013
Interest income	335,490	148,120
Exchange differences	–	–
Change in fair value of derivatives, net	8,673,483	1,187,210
Finance income	**9,008,973**	**1,335,330**
Interest expense	(1,643,920)	(2,250,190)
Effect of discounting, net	(332,720)	(171,590)
Exchange differences	(9,479,460)	(2,044,120)
Other	(268,620)	(35,820)
Finance costs	**(11,724,720)**	**(4,501,720)**

Interest expense relates to financial liabilities measured at amortised cost.

Finance income arose from interest accrued on call deposits, maintained with commercial banks.

21 COMPONENTS OF OTHER COMPREHENSIVE INCOME/LOSS

	For the year ended 31 December 2014	For the year ended 31 December 2013
Cash flow hedge		
Reclassification during the year to income statement	(2,347,163)	(240,265)
Other reclassifications	–	–
Net gains/(losses) during the year	3,190,723	400,608
Net movement on cash flow hedges (net of income tax)	**843,560**	**160,343**
Available-for-sale financial assets:		
Net losses arising during the year (net of income tax)	(8,960)	(7,730)
Net change in fair value of available-for-sale financial assets	**(8,960)**	**(7,730)**
Actuarial gains on defined benefits plans (net of income tax)	**1,173,508**	**(899,428)**

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

a) Overview

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

- credit risk;
- liquidity risk;
- market risk.

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

The Group's activities expose it to a variety of financial risks, including the effects of changes in interest rates, forex risk and the collectability of receivables.

In the course of 2014 the Group implemented operating and financial risk assessment through the analysis of the main business processes and put in place internal control system on financial reporting.

b) Credit risk

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

Thousands of Russian Roubles, unless otherwise stated

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

b) Credit risk (continued)

(i) Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references.

Majority of the Group's customers have been transacting with the Group for over several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

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

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a high credit rating. Given this management does not expect any counterparty to fail to meet its obligations.

(iii) Cash balances and deposits

The majority of cash balances and short-term deposits are held with reliable banks or financial institutions. The Group places funds in financial institutions characterized by a quite stable financial status.

(iv) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2014	31 December 2013
Available-for-sale financial assets	18,280	28,480
Trade receivables	6,482,049	7,101,575
Promissory notes (current portion)	–	164,553
Cash and cash equivalents	7,557,580	8,618,040
Long-term trade and other receivables	110,960	147,650
Promissory notes (non-current portion)	–	14,060
Total	**14,168,869**	**16,074,358**

The aging of financial assets, excluding cash and cash equivalents, at the reporting date was as follows:

	31 December 2014		31 December 2013	
	Gross	Impairment allowance	Gross	Impairment allowance
Not past due	4,521,930	–	4,795,009	–
Past due for less than 3 months	659,878	63,286	1,042,070	7,162
Past due for 3 to 12 months	820,999	182,442	1,338,202	689,844
Past due for more than one year	2,579,252	1,725,042	2,123,357	1,145,327
Total	**8,582,059**	**1,970,770**	**9,298,638**	**1,842,323**

c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Thousands of Russian Roubles, unless otherwise stated

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

c) Liquidity risk (continued)

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities, ability of the Group to fulfil the current obligations. In order to implement the main investment projects the Group have already attracted long-term financing for 12-15 years. The short term financing for not more than 1 year is attracted to cover the temporary cash shortage for operating activity. The given allocation of financial liabilities by terms enables to ensure that:

- at the required moment the Group has the needed amount of monetary funds in order to fulfill all required financial liabilities of the Group;
- at the required moment the Group will be able to redeem all its financial liabilities in full.

The following are the contractual maturities of financial liabilities, excluding estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(i) Non-derivative financial liabilities

	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
At 31 December 2014					
Bank loans	28,638,540	29,282,810	7,396,520	11,611,500	10,274,790
Commercial papers	–	–	–	–	–
Trade and other payables	14,165,323	14,165,323	14,165,323	–	–
Total	**42,803,863**	**43,448,133**	**21,561,843**	**11,611,500**	**10,274,790**
At 31 December 2013					
Bank loans	22,939,680	23,385,490	2,407,260	7,307,250	13,670,980
Commercial papers	5,000,000	5,000,000	5,000,000	–	–
Trade and other payables	11,717,698	11,717,698	11,717,698	–	–
Total	**39,657,378**	**40,103,188**	**19,124,958**	**7,307,250**	**13,670,980**

	31 December 2014	31 December 2013
Fair values		
Currency and interest rate swap	3,592,140	495,140
Forwards	5,469,963	229,178
Derivative assets	**9,062,103**	**724,318**
Currency and interest rate swap	–	(68,590)
Forwards	–	–
Derivative liabilities	**–**	**(68,590)**

Swaps measured at fair value through other comprehensive income and are designated as hedging instruments in cash flow hedges of euro denominated borrowings.

These hedges were assessed to be effective and net unrealised gains of RUB 3,190,723 thousand, with a deferred tax liability of RUB 797,681 thousand are included within other comprehensive income for 2014 (2013: gain at the amount of RUB 400,608 thousand and RUB 100,152 thousand of deferred tax liability respectively). No significant element of ineffectiveness required recognition in the consolidated income statement.

While the Group also enters into other foreign exchange forward contracts with the intention to reduce the foreign exchange risk, these other contracts are not designated in hedge relationships and are measured at fair value through profit and loss.

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

d) Market risk

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

Currency risk

The risk management strategy of the Group is aimed to minimize currency risks to which the Group is exposed. For this reason the hedging strategy is implemented through derivative transactions, whereby the major risk is attributed to borrowings and other liabilities when such are denominated in currencies other than the functional currency of the Company.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	31 December 2014		31 December 2013	
	USD	**EUR**	**USD**	**EUR**
Bank loans	–	(24,282,803)	–	(17,385,490)
Trade and other payables	(55,021)	(2,706,576)	(67,782)	(1,214,457)
Gross exposure	**(55,021)**	**(26,989,379)**	**(67,782)**	**(18,599,947)**
Interest rate swaps used for hedging	–	8,978,126	–	3,607,497
Forward exchange contracts	–	15,352,069	–	4,375,554
Net exposure	**(55,021)**	**(2,659,184)**	**(67,782)**	**(10,616,896)**

The following exchange rates applied during the period:

	Average rate		Reporting date spot rate	
RUB	**For the year ended 2014**	**For the year ended 2013**	**31 December 2014**	**31 December 2013**
USD	38.4217	31.8480	56.2584	32.7292
EUR	50.8150	42.3129	68.3427	44.9699

Sensitivity analysis

A weakening of the Russian rouble, as indicated below, against the USD and EUR at 31 December 2014 and 2013 would have decreased profit of the Group by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2014, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below.

Effect in thousands of Russian roubles

	Profit or loss
At 31 December 2014	
EUR (10 percent weakening)	265,918
USD (10 percent weakening)	5,502
At 31 December 2013	
EUR (10 percent weakening)	1,061,690
USD (10 percent weakening)	6,778

A strengthening of the Russian rouble against the above currencies at 31 December 2014 and 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Thousands of Russian Roubles, unless otherwise stated

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

d) Market risk (continued)

Interest rate risk

The financing strategy of the Group envisages appropriate hedging against interest rate risk.

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

	Carrying amount	
	31 December 2014	**31 December 2013**
Fixed rate instruments		
Financial assets	6,913,713	8,455,610
Financial liabilities	(23,106,070)	(18,722,740)
	(16,192,357)	**(10,267,130)**
Variable rate instruments		
Financial liabilities	(5,532,470)	(4,216,940)
	(5,532,470)	**(4,216,940)**

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would not have increased (decreased) profit or loss because the Group uses the cross currency interest rate swaps to transform variable rate liability into fixed-rate liability.

e) Fair value of financial instruments

Management believes that the fair value of the Group's financial assets and liabilities at 31 December 2014 approximates their carrying value.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2014	**2013**
Derivatives	6.83%-9.92%	6.56%-8.18%
Loans and borrowings	1.56%-6.70%	1.75%-8.38%

Thousands of Russian Roubles, unless otherwise stated

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

e) Fair value of financial instruments (continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
Assets measured at fair value at 31 December 2014				
Available-for-sale financial assets	**18,280**	**–**	**–**	**18,280**
	18,280	**–**	**–**	**18,280**
Interest rate swaps used for hedging	–	3,592,140	–	**3,592,140**
Forward exchange contracts	–	5,469,963	–	**5,469,963**
	–	**9,062,103**	**–**	**9,062,103**
Liability measured at fair value at 31 December 2014				
Interest rate swaps used for hedging	–	–	–	**–**
Forward exchange contracts	–	–	–	**–**
	–	**–**	**–**	**–**

	Level 1	Level 2	Level 3	Total
Assets measured at fair value at 31 December 2013				
Available-for-sale financial assets	28,480	–	–	**28,480**
	28,480	**–**	**–**	**28,480**
Interest rate swaps used for hedging	–	495,140	–	**495,140**
Forward exchange contracts	–	230,110	–	**230,110**
	–	**725,250**	**–**	**725,250**
Liability measured at fair value at 31 December 2013				
Interest rate swaps used for hedging				
Forward exchange contracts	–	(68,590)	–	**(68,590)**
	–	**–**	**–**	**–**

The table below analyses financial assets and liabilities not measured at fair value but for which fair value is disclosed:

	Level 1	Level 2	Level 3	Total
Assets not measured at fair value at 31 December 2014				
Trade and other receivables	–	–	7,159,361	**7,159,361**
Loans given	–	–	78,230	**78,230**
	–	**–**	**7,237,591**	**7,237,591**
Liability not measured at fair value at 31 December 2014				
Trade and other payables	–	–	14,165,323	**14,165,323**
Loans and borrowings	–	–	28,638,540	**28,638,540**
	–	**–**	**42,803,863**	**42,803,863**

Thousands of Russian Roubles, unless otherwise stated

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

e) Fair value of financial instruments (continued)

	Level 1	Level 2	Level 3	Total
Assets not measured at fair value at 31 December 2013				
Trade and other receivables	–	–	8,715,720	**8,715,720**
Loans given	–	–	100,180	**100,180**
	–	**–**	**8,815,900**	**8,815,900**
Liability not measured at fair value at 31 December 2013				
Trade and other payables	–	–	11,717,698	**11,717,698**
Loans and borrowings	–	–	27,939,680	**27,939,680**
	–	**–**	**39,657,378**	**39,657,378**

f) Capital risk management

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

- Share capital can not be lower than 1,000 minimum salaries on the date of company registration;
- If the share capital of the entity is greater than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- If the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation, if not rectified within 6 months after the year end.

As at 31 December 2014, the Group has been in compliance with the above share capital requirements.

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others 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. Net debt is calculated as total borrowings, as shown in the statement of financial position, less cash. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

	31 December 2014	31 December 2013
Total borrowings (Note 13)	28,638,540	27,939,680
Less: cash and cash equivalents (Note 10)	(7,557,580)	(8,618,040)
Net debt	**21,080,960**	**19,321,640**
Equity	**83,716,568**	**78,103,604**
Debt to equity ratio	**25.18%**	**24.74%**

23 COMMITMENTS

a) Fuel supply contracts

The Group has entered into several long-term gas and coal supply contracts. The prices in these contracts are based on market. The long-term contract for gas supply includes "take-or-pay" clause, according to which the Group agrees to pay for the minimum of 90% contracted gas volumes each year.

b) Capital commitments

Future capital expenditure for which contracts have been signed amounted to RUB 6,125,278 thousand at 31 December 2014 (at 31 December 2013: RUB 4,663,702 thousand).

24 CONTINGENCIES

a) Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices, by a devaluation of the Russian Rouble and by significant increase of the Rouble interest rates after the Central Bank of Russia raised its key rate, as well as sanctions imposed on Russia by several countries. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

b) Insurance

The Group applies the integrated insurance approach. The Group insurance policies portfolio includes both obligatory and voluntary types, and covers Group assets risks, third party liability risks and other insurable risks. Management of the Group takes the appropriate measures to minimize the potential negative external influence on Group property interest, which is exposed to those risks which are out of existing insurance program.

c) Legal proceedings

The Group was not a party to any significant legal proceedings which, upon final disposition, would have a material adverse effect on the financial position of the Group, except those for which provision has been accrued and recorded in this financial statement.

d) Tax contingency

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by the tax authorities who may impose severe fines, penalties and interest charges. Tax authorities are entitled to conduct field tax audits within three calendar years preceding the year when the tax authorities issue a decision to conduct a field tax audit.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities could differ from the position taken by the company and have effect on these consolidated financial statements. If the tax authorities are successful in enforcing their unfavourable interpretations of the tax legislation, the implications for the company could be significant.

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authorit ies to apply transfer pricing adjustments of income and expenses and impose additional corporate income tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes, inter alia, transactions performed with related parties and certain types of cross-border transactions.

In 2014 and 2013 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices.

Due to the difference in transfer pricing regulations in European countries and Russia and absence of current practice of application of the current Russian transfer pricing legislation, there is a risk that the Russian tax authorities may challenge the level of prices applied by the Group under the "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions calculated in accordance with Russian transfer pricing regulations, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

Overall, management believes that the Group has paid or accrued all taxes that are applicable. For taxes other than corporate income tax, where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources, which will be required to settle these liabilities.

Thousands of Russian Roubles, unless otherwise stated

24 CONTINGENCIES (continued)

e) Environmental matters

The Group and its predecessor have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluate its obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage, except those for which provision has been accrued and recorded in this financial statement (refer to Note 17).

The Company is a material subsidiary of the Enel Group, which pays special attention to environmental and safety matters, and it this significantly reduces the risks of the Company.

25 RELATED PARTIES DISCLOSURES

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In the normal course of business the Group enters into transactions with related parties.

Related parties include shareholders, directors, subsidiaries and enterprises controlled by Enel S.p.A.

Transactions with Enel Group

For the year ended 31 December 2014 the Group had the following transactions with Enel Group entities:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Sale of electricity	542,109	670,463
Other revenue	58,401	135,176
Purchases	(1,942,169)	(2,060,930)

As at 31 December 2014 the Group had the following balances with Enel Group entities:

	31 December 2014	31 December 2013
Trade and other receivables	373,029	357,925
Advances issued for capital construction	165,289	–
Trade and other payables	(2,718,782)	(2,562,685)

Transactions with other related parties

Transactions with other related parties represent transactions with the pension fund of energy industry NPF Electroenergetiki up to. October 2014, and VTB Pension Fund starting from October 2014 (the Company signed the agreement with the new pension fund).

	For the year ended	
	31 December 2014	31 December 2013
Other expenses	208,878	500,840

Thousands of Russian Roubles, unless otherwise stated

25 RELATED PARTIES DISCLOSURES (continued)

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Total remuneration incudes all type of remuneration such as wages, salaries, bonuses, non-monetary benefits, other. Total remuneration paid to the members of the Board of Directors and Management Board For the year ended 31 December 2014 and 2013 was as follows:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Remuneration	189,263	137,195
Social taxes	4,194	3,768

There were no loans provided to key management personnel during the year ended 31 December 2014.

The employee benefit obligations in the consolidated balance sheet includes payables attributable to key management personnel at the amount of RUR 57,033 thousand for the year ended 31 December 2014 (2013: RUR 97,564 thousand).

At 31 December 2014 there were 11 members of the Board of Directors and 6 members of the Management Board.

26 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s financial statements are disclosed. The Group has disclosed and addressed only those new standards and interpretations that are expected to have an impact on the Group’s financial position, performance, and/or disclosures. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on accounting of financial instruments. The effect has not yet been determined.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). This amendment can have an effect to fair value measurement of related assets and liabilities.

27 EVENT AFTER THE REPORTING DATE

In January 2015 the Group received a tranche in the amount of RUB 2,500,000 thousand under General Framework Agreement with Sberbank.