E.ON RUSSIA GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS AND
AUDITOR'S REPORT**

31 DECEMBER 2014

Contents

Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company E.ON Russia.

We have audited the accompanying consolidated financial statements of Open Joint Stock Company E.ON Russia and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Translation note:

This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

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Independent Auditor's Report (Continued)

Opinion

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

ZAO PricewaterhouseCoopers Audit

16 March 2015

Moscow, Russian Federation

O.V. Salnikova, Director (licence no. 01-000068),
ZAO PricewaterhouseCoopers Audit

Audited entity: Open Joint Stock Company E.ON Russia

State registration certificate № 1058602056985, issued by Federal Tax Service on 04 March 2005

628406, Russian Federation, Tumen region, Khanti-Mansiyskiy AO – Ugra, Surgut, Energostroiteley str., 23, bld 34

Independent auditor: ZAO PricewaterhouseCoopers Audit

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

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

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

Translation note:

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(RUB thousand)

	Note	At 31 December 2014	At 31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	7	102,996,512	90,416,319
Goodwill	6	499,082	-
Intangible assets	8	1,164,972	366,625
Long-term financial assets	9, 25	55,743	2,443,275
Other non-current assets	25	780,272	689,185
Total non-current assets		**105,496,581**	**93,915,404**
Current assets			
Cash and cash equivalents	25	13,100,785	18,026,997
Accounts receivable and prepayments	11, 25	5,983,083	8,845,451
Inventories	10	2,149,539	6,764,684
Short-term financial assets	12	919,055	1,869,167
Current income tax prepayments		50,362	1,321,634
Assets held for sale		-	153
Total current assets		**22,202,824**	**36,828,086**
TOTAL ASSETS		**127,699,405**	**130,743,490**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	25,219,482	25,219,482
Share premium		40,052,405	40,052,405
Other reserves	13	2,018,724	721,407
Retained earnings		45,177,717	53,290,789
Total equity attributable to shareholders of OAO E.ON Russia		**113,468,328**	**119, 284,083**
Non-controlling interest		525,854	62,908
Total equity		**113,994,182**	**119,346,991**
Non-current liabilities			
Deferred income tax liabilities	17	5,698,608	5,163,392
Pension liabilities	14	660,616	1,027,866
Other non-current liabilities	6	271,872	-
Total non-current liabilities		**6,631,096**	**6,191,258**
Current liabilities			
Accounts payable and accruals	15	6,127,313	4,146,253
Income tax payable		5,536	-
Taxes payable other than income tax	16	941,278	1,058,988
Total current liabilities		**7,074,127**	**5,205,241**
Total liabilities		**13,705,223**	**11,396,499**
TOTAL EQUITY AND LIABILITIES		**127,699,405**	**130,743,490**

General Director M.G. Shirokov

Financial Director U. Backmeyer

Approved and singed 16 March 2015

Consolidated Statement of Comprehensive Income

(RUB thousand)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Revenues	18	77,693,134	78,780,504
Operating expenses	20	(59,292,137)	(63,878,191)
Other operating income	19	619,689	836,188
Operating profit		**19,020,686**	15,738,501
Finance income	21	2,034,088	2,251,234
Finance expense	21	(117,672)	(175,481)
Profit before income tax		**20,937,102**	17,814,254
Income tax charge	17	(4,052,172)	(3,382,323)
Profit for the period		**16,884,930**	14,431,931
Profit for the period attributable to:			
Shareholders of OAO E.ON Russia		16,813,434	14,374,747
Non-controlling interest		71,496	57,184
Other comprehensive income after income tax:			
Items that will not be reclassified to profit or loss			
Remeasurements of pension liabilities		368,860	185,618
Total items that will not be reclassified to profit or loss		**368,860**	185,618
Items that may be reclassified subsequently to profit or loss			
Loss / (gain) from change in fair value of financial assets available-for sale		(1,904)	13,505
Gain from cash flow hedge		1,087,080	283,581
Reclassification of cash flow hedge gain to profit and loss		(156,719)	(54,870)
Total items that may be reclassified subsequently to profit or loss		**928,457**	**242,216**
Total other comprehensive income for the period		**1,297,317**	**427,834**
Total comprehensive income for the period		**18,182,247**	**14,859,765**
Total Comprehensive income attributable to:			
Shareholders of OAO E.ON Russia		**18,110 ,751**	**14,802,581**
non-controlling interest		**71,496**	**57,184**
Earnings per ordinary share for profit attributable to the shareholders of OAO E.ON Russia – basic and diluted (in Russian roubles)	22	**0,27**	**0,23**

(RUB thousand

	Attributable to shareholders of OAO E.ON Russia						
	Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
At 1 January 2013	**25,219,482**	**40,052,405**	**293,573**	**57,171,247**	**122,736,707**	**5,724**	**122,742,431**
Profit for the period	-	-	-	14,374,747	**14,374,747**	57,184	**14,431,931**
Other comprehensive income: Revaluation of financial assets available for sale	-	-	13,505	-	**13,505**	-	**13,505**
Revaluation of pension liabilities	-	-	185,618	-	**185,618**	-	**185,618**
Cash flow hedges	-	-	283,581	-	**283,581**	-	**283,581**
Reclassification of hedge gain to profit or loss, net of tax			(54,870)	-	**(54,870)**	-	**(54,870)**
Total comprehensive income for the period	**-**	**-**	**427,834**	**14,374,747**	**14,802,581**	**57,184**	**14,859,765**
Dividends	-	-		(18,255,205)	**(18,255,205)**	-	**(18,255,205)**
At 31 December 2013	**25,219,482**	**40,052,405**	**721,407**	**53,290,789**	**119,284,083**	**62,908**	**119,346,991**
At 1 January 2014	**25,219,482**	**40,052,405**	**721,407**	**53,290,789**	**119,284,083**	**62,908**	**119,346,991**
Profit for the period	-	-	-	16,813,434	**16,813,434**	71,496	**16,884,930**
Other comprehensive income: Revaluation of financial assets available for sale	-	-	(1,904)	-	**(1,904)**	-	**(1,904)**
Revaluation of pension liabilities	-	-	368,860	-	**368,860**	-	**368,860**
Cash flow hedges, net of tax	-	-	1,087,080	-	**1,087,080**	-	**1,087,080**
Reclassification of hedge gain to profit or loss, net of tax	-	-	(156,719)	**-**	**(156,719)**	**-**	**(156,719)**
Total comprehensive income for the period	**-**	**-**	**1,297,317**	**16 813 434**	**18,110,751**	**71,496**	**18,182,247**
Acquisition of subsidiary	-	-	-	-	**-**	432,903	**432,903**
Dividends	-	-	-	(23,926,506)	**(23,926,506)**	(41,453)	**(23,967,959)**
At 31 December 2014	**25,219,482**	**40,052,405**	**2,018,724**	**46,177,717**	**113,468,328**	**525,854**	**113,994,182**

(RUB thousand)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before income tax		**20,937,102**	**17,814,254**
Adjustments for non-cash items**:**			
Depreciation and amortisation	7,8,20	7,097,420	9,985,036
Reclassification of hedge gain to profit or loss	25	(195,899)	(68,588)
Loss on impairment of property, plant and equipment	7,8,20	158,638	3,439,953
Impairment of financial assets		57,794	
Provision for impairment of accounts receivable	25,20	554,837	1,124,581
Foreign exchange loss / (gain), net		(372,727)	38,824
Interest income	21	(954,760)	(2,251,234)
Interest expense and effect of discounting	21	117,672	136,657
(Gain)/loss on disposal of property, plant and equipment	7	(182,212)	(77,768)
Change in pension liabilities	14	56,836	105,389
Change in provisions		(636,823)	(20,195)
Other non-cash items		(173,920)	(50,350)
Operating cash flows before working capital changes and income tax paid		**26,463,958**	**30,176,559**
Working capital changes:			
(Decrease)/ increase in accounts receivable and prepayments	11	(560,041)	(1,775,042)
(Increase)/decrease in VAT recoverable	11	(202,765)	(136,491)
Increase in inventories	10	(470,249)	(197,607)
Increase in accounts payable and accruals	15	1,144,877	677,407
Contributions paid to pension fund	14	(44,365)	(36,792)
Increase/(decrease) in taxes payable other than income tax	16	(117,710)	(464,548)
Income tax paid		(2,831,187)	(4,311,489)
Net cash from operating activities		**23,382,518**	**23,931,997**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment and other non-current assets	7	(17,710,226)	(15,162,369)
Proceeds from sale of property, plant and equipment and other non-current assets	7	247,621	77,768
Acquisition of subsidiary	6	(1,051,829)	-
Change in short-term financial assets	12	8,508,434	19,192,936
Loans issued		(77,653)	(76,128)
Loans repaid	5,9	2,568,251	5,242
Interest received	21	930,903	1,996,525
Dividends received		65,311	-
Net cash generated from / (used for) investing activities		**(6,519,188)**	**6,033,974**
CASH FLOW FROM FINANCING ACTIVITIES:			
Dividends paid to shareholders of OAO E.ON Russia	13	(23,824,747)	(18,099,864)
Net cash used in financing activities		**(23,824,747)**	**(18,099,864)**
Effect of exchange rate changes on cash and cash equivalents		2,035,205	347,793
Increase/ (decrease) in cash and cash equivalents		**(4,926,212)**	**12,213,900**
Cash and cash equivalents at the beginning of the year		18,026,997	5,813,097
Cash and cash equivalents at the end of the year	25	13,100,785	18,026,997

(RUB thousand)

Note 1. The Group and its operations

Open Joint-Stock Company E.ON Russia (former OGK-4, hereinafter referred to as “OAO E.ON Russia” or the “Company”) was initially established on 4 March 2005. On 1 July 2006, the following power station entities merged with OAO OGK-4: OAO Berezovskaya GRES-1, OAO Shaturskaya GRES-5, OAO Yayvinskaya GRES, OAO Smolenskaya GRES and OAO Surgutskaya GRES 2. On 8 July 2011, OAO OGK-4 was officially renamed to OAO E.ON Russia. Currently, E.ON Russia Holding GmbH being the part of E.ON SE (former E.ON AG) is the major shareholder in OAO E.ON Russia, with a charter capital stake of approximately 83.73%.

The Company’s principal business activity is the generation and sale of electricity and heat.

OAO E.ON Russia shares are listed on the Moscow stock exchange MICEX-RTS.

The Company is registered by the District Inspectorate Ministry of Taxation of the Russian Federation at Surgut, Tyumen Region, Khanty-Mansi Autonomous Area (Yugra). The Company’s office is located at 10 Presnenskaya Naberezhnaya, Moscow, Russia, 123317.

The Company operates the following five power plants (GRES) as branches: Surgutskaya GRES-2, Shaturskaya GRES, Berezovskaya GRES, Smolenskaya GRES and Yayvinskaya GRES. The Company also runs a representation office in Moscow and a branch E.ON Engineering opened in 2014. The branch Berezovskaya GRES Heat Supply Network, which provided services on selling heat to the local population, was merged into the branch Berezovskaya GRES in 2014. All references to the “Group” refer to the Company and its branches and subsidiaries.

The structure of the Group, including all consolidated entities, is presented in the table below:

Subsidiaries of OAO E.ON Russia	Principal activity	Ownership, %	
		At 31 December 2014	At 31 December 2013
OOO E.ON Connecting Energies	Provision of distributed energy solutions to all types of customers	**100**	**100**
OOO Teplosbyt	Securities trading	100	100
OOO Noginsky Teplovoy Center	Generation and sale of electricity and heat	67	-
OAO Shaturskaya Management Company	Communal services	51	51

E.ON SE New Strategy

E.ON SE has announced on 30 November 2014 its intention to focus on renewables, electricity and gas distribution networks, and customer solutions.

Conventional generation, global energy trading and exploration and production businesses will be combined in a new, independent company (hereinafter the “New Company”), a majority of which will be spun off to E.ON SE shareholders. E.ON Russia will be part of the New Company. E.ON expects to carry out the spinoff after approval by the E.ON Shareholders Meeting in 2016.

Operating environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations. 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 economy of the Russian Federation was negatively impacted by a significant drop in crude oil prices and continuing political tensions in the region as well as series of international sanctions against some Russian companies and citizens. As a result, during 2014:

- CBR exchange rate ranged from RUB 32.7292 to RUB 56.2584 for the US dollar;
- Key CBR rate increased from 5.5% APR to 17.0% APR, including 12.0% APR to 17.0% APR 16 December 2014;
- RTS index ranged from 1,445 to 791 points;
- Access of some companies to international financial markets for the purpose of borrowing has been limited;
- Increased capital outflows as compared to previous years.

A number of sanctions have been introduced against the Russian Federation and some Russian officials and their effects are difficult to determine at this stage. In addition, there is a threat that additional sanctions will be introduced. This leads to a high level of uncertainty and volatility on the financial markets.

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

These consolidated financial statements reflect management's views on the impact of the current business environment in the Russian Federation on the Group's operations and financial position. Actual impact of future environment may differ from the estimates made by management.

Government relations and current regulations

Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (RAO UES of Russia), which established OAO OGK-4 in 2005, completed all reorganisation-related corporate procedures on 1 July 2008 and was liquidated as a legal entity. As of 31 December 2014, the "governmental share" of OAO E.ON Russia consisted of 0.006% of the ordinary voting shares of OAO E.ON Russia (in 2013: 0.006 %).The Group's electricity and heat customer base includes a number of state-controlled entities. Furthermore, the government controls a number of the Group's suppliers of fuel and other materials.

To efficiently meet system requirements, the OAO System Operator of the Unified Energy System (SO UES) coordinates all operations of generating companies.

The Group sells electricity through the wholesale electricity and capacity market. The wholesale electricity market has a number of sectors varying in contractual terms, conditions and delivery time frames: sector of regulated contracts, day-ahead market, sector of unregulated bilateral contracts and the balancing market. The electricity traded in pricing zones of wholesale market was sold at unregulated prices excluding of volumes designated for delivery to population, groups of customer's equivalent to population and customers located in North Caucasus and Republic of Tyva.

The Russian government has a direct influence on the Group's operations through the Federal Tariff Service (FTS), which regulates wholesale electrical energy and capacity sales under regulated contracts, and through the Regional Energy Commission which regulates the Group's heat sales.

Regulations on the power industry and natural monopolies govern the Group's tariffs for regulated electrical energy, capacity and heat sales. Historically, such tariffs have been based on cost-plus pricing, meaning the cost of the service plus a margin.

Costs are determined under Russian Accounting Rules (RAR), a basis of accounting which considerably differs from International Financial Reporting Standards (IFRS). In practice, tariff-setting decisions are significantly affected by social and political considerations, which can result in substantial delays in tariff indexations as well as in tariff increases that fail to compensate for rising costs.

As described in Note 24, the government's economic, social and other policies could materially affect the Group's operations.

Changes in Industry

The Russian Regulation No 505 issued by the Russian Government as of 2 June 2014 introduces amendments into the acts for the regulated prices (tariffs) for electricity and capacity. The above Regulation provides for the following:

- The indexation of capacity prices resulting from the competitive capacity selection in 2013 –from 1 January by 6.6%, in 2014 –from 1 January by 6.5%, in 2015 – without indexation.
- The indexation of regulated prices (tariffs) for electric energy (power) in 2013 - from 1 July, in 2014 and 2015 - without indexation.

Cancellation of indexation of regulated prices (tariffs) and prices ROM is part of measures to limit the cost increase of the goods and services of natural monopolies, approved in November 2013 by the Government of the Russian Federation.

In addition, in accordance with the Government action plan to limit the value of goods and services of natural monopolies, in 2014 the wholesale gas prices were "frozen" (in accordance with the Order of the Federal Tariff Service number 177-e / 2 of 26 September 2013) and the level set for the price of gas in 2014 corresponds to the prices of August 2013.

Seasonality of operations

Demand for electricity and heat is influenced by both the seasons of the year and the relative severity of the weather. Major revenues from heat sales are generated over the period from October to March. Similarly, though not so evidently, major electricity sales fall within the same period. Seasonality of heat and electricity generation influences fuel consumption and energy purchases accordingly.

In addition, repairs and maintenance expenses increase in the period of reduced generation from April to September. This seasonality does not impact the revenue or cost recognition policies of the Group.

Note 2. Principles of preparation and summary of significant accounting policies

Statement of compliance. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Each enterprise within the Group individually maintains its own accounting records and prepares statutory financial statements in accordance with Russian accounting and reporting rules. ("RAR"). The accompanying consolidated financial statements are based on the statutory records and adjusted and reclassified for fair presentation to meet IFRS requirements. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Functional and presentation currency. The national currency of the Russia is the Russian Rouble ("RUB"), which is the functional currency of all of the Group's entities and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand.

Monetary assets and liabilities are translated into the Group's functional currency at the official exchange rate of the Central Bank of the Russian Federation (CBRF) at the end of the relevant reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Group's functional currency at the official CBRF year-end exchange rates are recognised in profit or loss as finance income or finance expense, unless they are related to hedging instruments. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Predecessor accounting. In these consolidated financial statements, formation of the Group was accounted for as a business combination of entities under common control. The predecessor accounting method was applied. Accordingly, the assets and liabilities of the combined entities (OAO Berezovskaya GRES-1, OAO Shaturskaya GRES-5, OAO Yayvinskaya GRES, OAO Smolenskaya GRES and OAO Surgutskaya GRES 2) were recorded at their historical cost as reflected in the IFRS consolidated financial statements of RAO UES. The formation of the Group was completed in June 2006.

Changes in accounting policies. Since 1 January 2014, the Group first applies the following new standards and amendments to existing standards and interpretations.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36
These amendments cancel requirement of disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) including goodwill or intangible assets with indefinite useful life for which an impairment loss has not been recognized during the period. These amendments have no impact to the Group.

In 2014 the Group has also adopted certain other new standards and interpretations, which have no material impact to the Group.

Principles of consolidation. The financial statements comprise the financial statements of OAO E.ON Russia and the financial statements of those entities whose operations are controlled by OAO E.ON Russia. Control is presumed to exist when OAO E.ON Russia (i) has the power to enable it to manage the significant activity that has a significant impact on the income of an investment, (ii) is exposed to risks associated with variable income from interest in an investment, or is entitled to receive such income, and (iii) has the ability to use its powers in respect of an investment in order to influence the amount of income of the investor.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

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

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

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

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

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Non-controlling interests have been disclosed as part of equity.

Transactions eliminated on consolidation. Inter-Group balances and transactions, and any unrealised gains arising from inter-Group transactions, are eliminated in preparing the consolidated financial statements.

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

Property, plant and equipment. Property, plant and equipment (PP&E) are stated at amortised cost less impairment. Deemed cost was initially determined by a third-party valuation as of 31 December 1997 and restated for the impact of inflation for the period until 31 December 2002. Adjustments were made for additions, disposals and depreciation charges. The amounts determined by the third-party valuation represent an estimate of depreciated replacement cost. Under paragraph 16 of IAS 29 *Financial Reporting in Hyperinflationary Economies*, a third-party valuation was performed in order to determine a basis for cost because historical accounting records for PP&E were not readily available. Therefore, this third-party valuation was not a recurring feature, since it was intended to determine the initial cost basis of PP&E and the Group had not adopted a policy of PP&E revaluation for subsequent measurement. At each reporting date, management assesses whether there is any indication of impairment of PP&E; this assessment is performed at the level of the cash generating unit (per station). If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

(RUB thousand)

Renewals, improvements and major capital maintenance costs are capitalised and the assets replaced are retired. Regular repair and maintenance costs are expensed as incurred. Gains and losses arising from the retirement of PP&E are included in profit and loss as incurred.

Depreciation of PP&E is calculated on a straight-line basis over the estimated useful life of the asset once it is available for use. The residual value of the Group's PP&E is estimated to be close to zero. For those PP&E items that were subject to the third-party valuation at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives at the valuation date. Remaining useful lives and residual value are reviewed annually.

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

Type of facility	Acquired before 31 December 1997	Acquired after 31 December 1997
Electricity and heat generation	7-50	15-50
Electricity distribution	6-32	8-25
Heating network	4-20	12-20
Major capital maintenance	-	4-6
Other	2-8	3-10

Social assets are not capitalised, 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.

Purchases of property, plant and equipment in the Statement of Cash Flows do not include VAT.

Intangible assets. Intangible assets include computer software, licences and expenses on connection to the grid. Intangible assets are stated at amortised cost less impairment. Amortisation is calculated using a straight-line method. The useful lives of computer software are 1-16 years, while for the grid connection fee the useful life is 10 years.

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

Amortisation of intangible assets is included in operating expenses. Remaining useful lives are reviewed annually.

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: financial assets at fair value through profit or loss, available for sale, held to maturity, and loans and receivables.

Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for sale.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

The held-to-maturity category 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. Management determines the classification of financial assets held to maturity at their initial recognition and reassesses the appropriateness of that classification at each reporting date.
All other financial assets are included in the available-for-sale category.

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

Trade and other accounts receivable. Accounts receivable are recorded inclusive of value-added tax. Accounts receivable initially are recognised at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment of accounts receivable is created if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, which is the present value of expected cash flows discounted at the initial market interest rate for similar borrowers at the date the debt arose.

Promissory notes. Promissory notes are recognised at fair value and subsequently accounted for at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment is created if there is objective evidence, based on credit rating of the issuing bank, that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, which is the present value of expected cash flows discounted at the market interest rate for similar borrowers at the date the debt arose.

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

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on debt securities is calculated using the effective interest method and recognised in profit or loss for the reporting period as finance income. The Group does not have available-for-sale debt securities as of reporting dates. Dividends on available-for-sale equity instruments also are recognised in profit or loss for the reporting period as finance income when the Group’s right to receive payment is established and it is probable that the dividends will be collected. All other changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income for the year.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (a) held for sale, which also includes derivative financial instruments, and (b) other financial liabilities. Liabilities held for sale are carried at fair value through profit or loss (as finance income or finance expense) in the period in which they arise. Other financial liabilities are carried at amortised cost. The Group does not have liabilities held for sale as of the reporting dates.

Value added tax on purchases and sales. Output value added tax related to sales is payable to the tax authorities on the earlier of (a) collection of payment from customers or (b) delivery of the goods or services to customers. Input VAT is recoverable against output VAT upon receipt of the VAT invoice.

The tax authorities permit VAT settlement on a net basis. VAT on sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debt, including VAT.

Inventories. Inventories are valued at the lower of cost and net realisable value. Cost of inventory is determined on a weighted average basis. Net realisable value is is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Income tax. Income tax expense comprises current and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years, as well as items that are not taxable or deductible. The Group's liability for current income tax is calculated using tax rates that were effective at the reporting date.

Deferred income tax. Deferred tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as per the consolidated financial statements. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences upon initial recognition of an asset or a liability in a transaction other than a business combination if the initial recognition of this asset or liability does not affect either accounting or taxable profit or loss. Deferred tax balances are measured at tax rates enacted or substantially enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions and tax loss carry forwards can be utilised.

Deferred tax movements are recorded in profit and loss unless they are related to items recorded in other comprehensive income or directly in equity. In this case, deferred taxes are recorded as part of other comprehensive income or the shareholders' equity.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by the tax authorities based on management's interpretation of tax laws that have been enacted or substantially enacted at the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligation at the reporting date.

Accounts payable. Accounts payable are stated inclusive of value-added tax. Accounts payable initially are recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

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

Pension and post-employment benefits. The Group makes all mandatory payments to the Russian state pension fund on behalf of its employees. Mandatory contributions to the state pension fund are expensed when incurred.

The Group provides a number of post-employment and other long-term benefits that have the nature of a defined benefit plan or a defined contribution plan. Defined benefit plans provide old-age and disability pensions, death in service and death in pension benefits, lump sum payment upon retirement, jubilee benefits to current and former employees retired from the Group as well as financial support after old-age retirement.

Defined benefit plans, except for old-age and disability pensions, are unfunded and paid on a pay-as-you-go basis, i.e. cost is met directly by the Group when due. With regard to old-age and disability pensions the Group has an agreement with a non-state pension fund.

The defined benefit plan defines the pension allowance that an employee will receive upon retiring. The allowance generally depends on several factors such as age, length of employment and salary. Pension obligation is settled by the Group via a non-state pension fund when the employee retires.

Defined benefit obligations are calculated using the projected unit credit method. The present value of defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and which have terms to maturity approximating the terms of the related pension liabilities.

The liability recognised in the statement of financial position is the present value of the obligation less plan assets. Actuarial gains and losses arising from experience adjustments and changes in actuarial estimates of post-employment activities are reflected in full in other comprehensive income. Past-service costs are recognised immediately in profit or loss.

Operating leases. Where the Group is a lessee in a lease that does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the lease term.

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

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

Hedge accounting. The Group applies hedge accounting to cash flow hedge of the currency risks related to cash outflows in foreign currencies under investment programme and service contracts entered into for new Combined Cycle Plants (CCPs). Funds received as a result of operating activity were placed on deposits in the same currencies (hedging instrument). As the amount of the hedging instrument matches the amount of hedged items the effectiveness of the hedge is ensured.

The Group has applied the accounting policy to reclassify foreign exchange gains and losses that were recognised in other comprehensive income to profit or loss as a reclassification adjustment in the same periods during which the asset acquired affects profit or loss (that is in the periods when depreciation charge or service charge is recognised).In the statement of cash flows, cash flows of the hedging instrument are classified similarly to cash flows related to the hedged item.

Provisions. Provisions are recognised where the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Revenue recognition. Electricity sales are recognised when the generated electricity is supplied to the grid. In accordance with the regulation on the Russian wholesale electricity and capacity market, utilities companies are required to conclude transactions for the sale and purchase back of electric energy (under bilateral contracts, for electricity for their own needs). Accordingly, these linked transactions are netted when revenue is recognised. Capacity sales are recognised when the capacity obligations have been fulfilled; heat energy sales are recorded when the heat is delivered to the customer. Other revenue is recognised when goods are shipped/delivered, or services are provided. Revenues are measured at the fair value of the consideration received or receivable. Revenue is presented exclusive of value-added tax.

Earnings per share. Earnings per share are determined by dividing the profit attributable to ordinary shareholders of the parent company of the Group (OAO E.ON Russia) by the weighted average number of ordinary shares outstanding during the reporting period.

Non-controlling interest. Non-controlling interest represents the minority shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This is calculated based upon the non-controlling interest's ownership in these subsidiaries. For purchases of non-controlling interests, the difference between the carrying amount of a non-controlling interest and the amount paid to acquire it is recorded in gains or losses recognised directly in equity.

Interest. Interest income and expense are recognised in profit or loss for all debt instruments on an accrual basis using the effective interest method. Interest income includes nominal interest and amortised discount or premium. When loans become doubtful, they are written down to their recoverable amounts, and interest income thereafter is recognised based on the interest that was used to discount future cash flows for the purpose of measuring the recoverable amount.

Fair value measurement. The fair value of accounts receivable for disclosure purposes is measured by discounting the value of expected cash flows at the market interest rate for similar borrowers at the reporting date.

The fair value of financial liabilities and other financial instruments (unless publicly quoted) for disclosure purposes is measured by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair value of publicly quoted financial instruments is measured based on the current market value at the reporting date.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision-maker who assess the Group's performance and allocate resources efficiently.

Note 3. Critical accounting estimates and assumptions

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group's management also makes certain judgements, apart from those involving estimates, in applying accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that could cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Provision for impairment of accounts receivable*.* Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectability of specific customer accounts has deteriorated compared to prior estimates. If there is deterioration/improvement in a major customer's creditworthiness or actual defaults are higher/lower than the estimates, the actual results could differ from those estimates reported in these consolidated financial statements (see Note 11).

Tax contingencies*.* Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group's management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued in these consolidated financial statements. Contingent tax liabilities are disclosed in Note 24.

Information on the Group's contingent tax liabilities is presented in Note 24.

Useful lives of property, plant and equipment. The estimation of the useful lives of an item of property, plant and equipment is a matter of management judgement based on experience with similar assets. In determining the useful life of an asset, management considers existing industry practices, 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 useful lives of property, plant and equipment are disclosed in Note 2.

The carrying value of fixed assets and the amounts included in the consolidated statement of comprehensive income, including depreciation, are disclosed in Note 7.

Impairment of fixed assets.
The Group assesses its non-current assets for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in market prices and regulated tariffs for electricity and capacity, as well as gas and other fuel prices, leading to sustained unprofitable

performance, an increase in the discount rate, low plant utilisation, evidence of physical damage and significant downward revisions of estimated generation volumes or increases in estimated future production costs. The assessment for impairment entails comparing the carrying value of the asset or cash-generating unit with its recoverable amount, that is, the higher of fair value less costs to sell and value in use. These calculations require the use of estimates and assumptions, including future oil prices, expected production volumes and margins on electricity and capacity sales. It is reasonably possible that these assumptions may change and may then require a material adjustment to the carrying value of the Group's assets.

Information about impairments recognised is presented in Note 7.

Note 4. New standards and interpretations

The Group analysed new and revised accounting standards and interpretations that have been released, but don`t effected for the Group, and determined that the following may have an impact on the future financial reporting of the Group (for annual periods beginning on or after 1 January 2016).

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning on or after 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment did not have a material effect on the Group's financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the amendments on its financial statements.

***IFRS 9, Financial Instruments: Classification and Measurement (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018)*.** Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present

(RUB thousand)

the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). These improvements also include the amendment to IAS 19 clarifies that the high quality corporate and government bonds used to determine the discount rate for post-employment benefit obligations are required to be denominated in the same currency as the pension liabilities. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS (IAS) 1 Disclosure (issued in December 2014 and effective for annual period beginning on or after 1 January 2016). The standard was amended to clarify the concept of materiality and to explain that the company should not provide the disclosures required by IFRS in case of their immateriality even if these disclosures are included in the list of the IFRS certain standard requirements or are minimum necessary disclosures. The standard also includes a new guidance on subtotals disclosures, according to which the subtotals (a) should include the articles which are recognized and evaluated in accordance with IFRS; (b) should be presented and specified in such way to clarify understanding of subtotal components; (c) should be consistent from period to period; and (d) should not be displayed with more prominence than the subtotals and totals required in IFRSs. These amendments are not expected to have an essential impact on Group's financial statements.

Note 5. Related Parties

E.ON SE (former E.ON AG) is the Company's ultimate parent and ultimate controlling party. E.ON SE is widely held.

The Group's immediate parent is E.ON Russia Holding GmbH.

The Group had the following transactions and balances with the ultimate parent and other entities under common control:

	At 31 December 2014	At 31 December 2013
Accounts receivable	309	23,646
Accounts payable and accruals	249,788	5,438

	Year ended 31 December 2014	Year ended 31 December 2013
Revenues (less VAT)	23,454	2,098
Services provided and works performed (less VAT)	287,774	68,223

On 30 November 2010, the Group provided a loan to E.ON SE in the amount of RUB 1,750,000

(RUB thousand)

thousand due on 30 November 2017. During the period from 1 January 2014 to 4 August 2014 the interest rate was 7.00-9.95% per annum (during the period from 1 January 2013 to 31 December 2013 the interest rate was 7.00–7.55%% per annum). A portion of accrued interest was capitalised over the reporting period. As of 3 August 2014 the loan increased to RUB 2,501,988 thousand (at 31 December 2013 – RUB 2,417,604 thousand).

On 4 August 2014 the loan was fully repaid at the amount of RUB 2,559,280 thousand. (including the amount of the loan - RUB 2,501,988 thousand, interest on the loan - RUB 57,292 thousand)

Directors' and Management Board's compensation

Members of the Company's Management Board receive compensation for their services in full-time management positions. Compensation is made up of a contractual salary, non-cash benefits and a performance bonus depending on results for the period according to the IFRS statutory financial statements (E.ON Group).

Members of the Board of Directors receive fees and compensation for their services and for attending board meetings as well as a bonus depending on the results for the year.

Total remuneration in the form of salary and bonuses accrued to members of the Board of Directors and Management Board for the year ended 31 December 2014 was RUB 238,554 thousand (31 December 2013: RUB 185,788 thousand).

	Year ended 31 December 2014	Year ended 31 December 2013
Salary and bonuses, other benefits	172,456	162,098
Contributions to non-state pension fund	15,032	11,875
Cash-settled share-based compensation	49,509	11,562
Termination benefits	1,557	253
Total	**238,554**	**185,788**

Members of the Company's Management Board participate in the Group's pension plans, including defined benefits plans, on the same terms as other employees (Note 14).

Note 6. Acquisitions and disposals

Acquisition of ownership interest in OOO Noginsky Teplovoy Center

On 29 January 2014 OOO E.ON Connecting Energies (Group`s subsidiary) and AMG Industrial Investment Corporation AG signed a Sale and Purchase Agreement. According to this document E.ON Connecting Energies acquired a 67% share in OOO Noginsky Teplovoy Center (owned by Subsidiary of DEGA Group).

Currently, OOO Noginsky Teplovoy Center owns and manages 2 combined cycle gas turbines with an aggregate capacity of 30 MW in the industrial park Borilovo in Noginsk (Moscow region).

Customers of the OOO Noginsky Teplovoy Center are large Russian and international companies, such as Bayer, Metro, Oriflame and MacDonalds.

By April 2014, the Group received the unconditional and unqualified approval of the transaction by the Federal Antimonopoly Service of Russia ("FAS Approval"). On 15 April 2014 the Group recognized the acquisition of the 67% stake in OOO Noginsky Teplovoy Center.

The purchase price for the 67% of Share in OOO Noginsky Teplovoy Center consists of the following components:

1) The Initial Share Purchase Price – a cash payment in the amount of EUR 22,040,630 (RUB 1,099,519 thousand) in favour of AMG Industrial Investment Corporation AG (payment was

(RUB thousand)

made on 15 April 2014);

2) The Additional Share Purchase Price - a cash payment in the amount of EUR 2 000 000 in favour of AMG Industrial Investment Corporation AG (payment will be made within the period until 31 December 2018);

3) The Bonus Payment - a cash payment from zero to RUB 272,100 thousand. OOO E.ON Connecting Energies shall additionally pay RUB 10,547 for each full kW contracted by OOO Noginsky Teplovoy Center over 25.45 MW contracted at the date of the sales contract, but not more than RUB 272.1 million in the aggregate for the period up to 31 December 2018.

The present values of the second and third components are determined at fair value in the amount of RUB 278,486 thousand. The fair value was determined by applying the discounted cash flow method. The estimated fair value of the second component is determined by discounting the cash outflows using a discount rate of 3.6% which is cost of debt. The estimated fair value of the third component is determined by discounting the maximum cash payment using WACC equal to 9.6%.

As a result of the transaction, the Group obtained control over the operating and financial activities of OOO Noginsky Teplovoy Center by controlling the majority of votes at the general meeting of shareholders.

The consideration transferred by the Group, was based on an assessment of the value of the business acquired entity as a whole, produced by an external appraiser, KPMG AG Wirtschaftsprüfungsgesellschaft. However, in accordance with IFRS (IFRS) 3 "Business Combinations" Group should reflect the acquisition at the fair value of assets acquired and the acquisition of liabilities and contingent liabilities of OOO Noginsky Teplovoy Center at the acquisition date. These two different approaches can lead to differences and, as set out in the table below, the recognition of goodwill.

Below is the information about the assets and liabilities acquired and goodwill arising in connection with the acquisition of OOO Noginsky Teplovoy Center:

OOO Noginsky Teplovoy Center	**Fair value at the acquisition date**
Intangible assets	931,471
Property, plant and equipment	857,751
Trade receivables	3,440
Other current assets	12,345
Cash and cash equivalents	47,690
Deferred income tax liabilities	(300,759)
Trade payables	(8,022)
Other current liabilities	(232,090)
Total identifiable net assets	**1,311,826**
Non-controlling interest (33%)	(432,903)
Goodwill	**499,082**
Total consideration	**1,378,005**
Less: cash and cash equivalents of subsidiary acquired	(47,690)
Less: non-cash consideration	278,486
Outflow of cash and cash equivalents on acquisition	**1,051,829**

The non-controlling interest represents the interest in the net assets of the acquired entity belonging to the non-controlling owners.

The fair value of the assets acquired and liabilities was determined on the basis of discounted cash flow. The valuation of identifiable intangible assets is performed by an independent professional appraiser. During the evaluation, in addition to tangible assets (fixed assets for production and distribution of energy) was recognized as an intangible asset (client relationships), which is considered the main asset of the company.

Goodwill is primarily due to the expected synergies from the acquisition and the uniqueness of the services provided, as well as the lack of connectivity of the industrial park to other energy sources. For future periods, goodwill will not reduce the tax base.

On 29 January 2014 E.ON Connecting Energies (the Group's subsidiary) and DEGA Group (AMG) have signed a Joint Activity Agreement for provision of energy solutions for industrial and business parks on the territory of the Russian Federation. The Agreement defines terms and conditions under which these companies will cooperate in production and delivery of heat and electricity and their responsibilities.

Under this Agreement, during the construction of new industrial parks in the Russian Federation, DEGA Group shall work exclusively with E.ON Connecting Energies in the area of decentralized delivery of the heat and electricity, generating and distributing equipment.

During the period from the date of acquisition to 31 December 2014 the share of the subsidiary acquired in the Group's revenues amounted to RUB 354,598 thousand, and profit to RUB 52,405 thousand. If the acquisition had occurred on 1 January 2014, the revenue of the Group for 2014 would have amounted to RUB 77,873,331 thousand, and the profit for 2014 would have amounted to RUB 16,544,472 thousand.

(RUB thousand)

Note 7. Property, plant and equipment

	Land	Electricity and heat generation	Electricity distribution	Heating network	Construction in progress	Other	Total
Cost							
Balance at 1 January 2014	**67,930**	**92,757,527**	**8,334,134**	**995,340**	**27,868,602**	**11,302,001**	**141,325,534**
Additions	-		-	-	19,018,390		**19,018,390**
Transfers	45	3,715,387	75,378	27,516	(4,287,773)	469,447	**-**
Reclassification	-	22,310	-	-	-	(22,310)	**-**
Acquisition of subsidiary	15,503	326,616	-	-	-	574,553	**916,672**
Disposals	(23)	(223,991)	(321)	(873)	-	(579,130)	**(804,338)**
Balance at 31 December 2014	**83,455**	**96,597,849**	**8,409,191**	**1,021,983**	**42,599,219**	**11,744,561**	**160,456,258**
Accumulated depreciation (including impairment)							
Balance at 1 January 2014	**-**	**40,118,489**	**3,230,197**	**604,436**	**11,505**	**6,944,588**	**50,909,215**
Charge for the period	-	5,203,764	586,029	41,267	-	1,106,268	**6,937,328**
Impairment loss	-	109,652	8,531	3,092	17,478	18,189	**156,942**
Reclassification	-	22,311	76	-	-	(22,387)	**-**
Acquisition of subsidiary	-	34,250	-	-	-	24,671	**58,921**
Disposals	-	(56,726)	(2,536)	(723)	(5,856)	(536,819)	**(602,660)**
Balance at 31 December 2014	**-**	**45,431,740**	**3,822,297**	**648,072**	**23,127**	**7,534,510**	**57,459,746**
Net book value at 1 January 2014	**67,930**	**52,639,038**	**5,103,937**	**390,904**	**27,857,097**	**4,357,413**	**90,416,319**
Net book value at 31 December 2014	**83,455**	**51,166,109**	**4,586,894**	**373,911**	**42,576,092**	**4,210,051**	**102,996,512**

(RUB thousand)

	Land	Electricity and heat generation	Electricity distribution	Heating network	Construction in progress	Other	Total
Cost							
Balance at 1 January 2013	**67,908**	**90,803,961**	**8,008,158**	**946,279**	**15,983,124**	**10,788,893**	**126,598,323**
Additions	-	-	-	-	15,070,902	-	**15,070,902**
Transfers	464	2,358,187	222,027	65,324	(3,185,424)	539,422	**-**
Reclassification	-	(288,424)	144,251	-	-	144,173	**-**
Disposals	(442)	(116,197)	(40,302)	(16,263)	-	(170,487)	**(343,691)**
Balance at 31 December 2013	**67,930**	**92,757,527**	**8,334,134**	**995,340**	**27,868,602**	**11,302,001**	**141,325,534**
Accumulated depreciation (including impairment)							
Balance at 1 January 2013	**-**	**29,485,515**	**2,385,964**	**544,796**	**-**	**5,556,360**	**37,972,635**
Charge for the period	**-**	7,822,531	679,065	43,876	-	1,226,133	**9,771,605**
Impairment loss	**-**	3,044,638	190,318	31,516	11,505	158,001	**3,435,978**
Reclassification	**-**	(165,961)	14,311	-	-	151,650	**-**
Disposals	**-**	(68,234)	(39,461)	(15,752)	-	(147,556)	**(271,003)**
Balance at 31 December 2013	**-**	**40,118,489**	**3,230,197**	**604,436**	**11,505**	**6,944,588**	**50,909,215**
Net book value at 1 January 2013	**67,908**	**61,318,446**	**5,622,194**	**401,483**	**15,983,124**	**5,232,533**	**88,625,688**
Net book value at 31 December 2013	**67,930**	**52,639,038**	**5,103,937**	**390,904**	**27,857,097**	**4,357,413**	**90,416,319**

(RUB thousand)

At 31 December 2014, the carrying amount of property, plant and equipment reflects impairment and obsolescence loss of RUB – 3,315,839 thousand (31 December 2013: RUB 3,435,978 thousand).

Following the publication in 2013 by the Government of the Russian Federation of the plan of measures to restrict cost of goods and services of natural monopolies, providing for abolishment of indexation of prices (tariffs) for electricity, capacity and gas in 2014 and further limiting of their indexation during 2014-2016 within inflation level, the Group performed an impairment test for for each of the Group's CGUs to which the individual assets are allocated, i.e. individual power plants. As a result, during 2013 impairment losses were recognized in respect of Shaturskaya GRES amounting to RUB 1,907,044 thousand and Smolenskaya GRES amounting to RUB 1,528,934 thousand, totalling RUB 3,435,978 thousand (in 2012 the economic losses from impairment of assets held for sale amounted to RUB 167 440 thousand including RUB 111,969 thousand attributable to Berezovskaya GRES, RUB 994 thousand attributable to Shaturskaya GRES, RUB 52,057 thousand attributable to Surgutskaya GRES and RUB 2,419 thousand attributable to Berezovskaya GRES Heat Supply Network). The recoverable amount of assets was determined as their value in use based on a discounted after-tax cash flows model. The significant assumptions in the discounted cash flow model are: forecasted prices for electricity and natural gas, anticipated production volumes and the discount factor applied in determining value in use. In the first pricing zone basic volume of electricity is generated from thermal generating facilities for which gas is used as main type of fuel; hence, increase in gas price results in increase in electricity price.

The key sensitivities in relation to the discounted cash flows are:
• future natural gas prices were based on the Federal Tariff Service (FTS) tariffs and use growth rates as forecasted by the Ministry of Economic Development of the Russian Federation. If the estimated future prices were to decrease by five percent for each year in the cash flow projection then, assuming that electricity prices decrease by the same percentage and the other parameters remain unchanged , the value in use of the above stations would have decreased and the respective impairment loss would have increased by RUB 1,244,913 thousand;

• future production volumes were based on the forecasts of the Ministry of Economic Development. If the estimated produced volumes would have decreased by one percent for each year in the cash flow projection, assuming that the other parameters remain unchanged, the value in use of the above stations would have decreased and the respective impairment loss would have increased by RUB 35,925 thousand;

• the after-tax discount rate was assumed to be 11.7%. If the discount rate was increased by 1pp (to 12.7%), then, assuming that the other parameters remain unchanged, the value in use of the above stations would have decreased and the respective impairment loss would have increased by RUB 659,578 thousand.

The Group evaluated assets' recoverable amounts at the level of cash-generating units (power plants). The results of this analysis showed that the Group did not have losses from the impairment of fixed assets.

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

Operating lease

The OAO E.ON Russia leases a number of land plots owned by local governments under operating leases. Land lease payments are determined in accordance with existing agreements based on cadastral value of land plots and are subject to revision on a regular basis.
Operating lease charges determined based on lease payment rates effective as of the end of each reporting period are payable as follows :

	At 31 December 2014	**At 31 December 2013**
Less than one year	36,073	32,656
Between one and five years	169,728	156,427
More than five years	950,769	812,784

(RUB thousand)

Total	**1,156,570**	**1,001,867**

OAO E.ON Russia leases the land where its electric power plants and other assets are located. Leases typically run for an initial period of 1–49 years, with an option to further extend the lease.

Note 8. Intangible assets

	Computer software	Licenses	Client relations hips	Grid connection	Total
Cost					
Balance at 1 January 2014	**541,772**	**3,284**	**-**	**199,485**	**744,541**
Additions	102,405	3	**-**	-	**102,408**
Acquisition	-	-	931,471	-	**931,471**
Disposals	(340,339)	(335)	-	-	**(340,674)**
Balance at 31 December 2014	**303,838**	**2,952**	**931,471**	**199,485**	**1,437,746**
Accumulated depreciation (including impairment)					
Balance at 1 January 2014	**313,531**	**1,366**	**-**	**63,019**	**377,916**
Charge for the period	162,615	363	49,498	19,948	**232,424**
Impairment	3,108	-	-	-	**3,108**
Disposals	(340,339)	(335)	-	-	**(340,674)**
Balance at 31 December 2014	**138,915**	**1,394**	**49,498**	**82,967**	**272,774**
Net book value at 1 January 2014	**228,241**	**1,918**		**136,466**	**366,625**
Net book value at 31 December 2014	**164,923**	**1,558**	**881,972**	**116,518**	**1,164,972**

Cost					
Balance at 1 January 2013	**788,211**	**3,966**	**-**	**199,485**	**991,662**
Additions	124,453	110	**-**	-	**124,563**
Disposals	(370,892)	(792)	**-**	-	**(371,684)**
Balance at 31 December 2013	**541,772**	**3,284**	**-**	**199,485**	**744,541**
Accumulated depreciation (including impairment)					
Balance at 1 January 2013	**479,970**	**1,376**	**-**	**43,071**	**524,417**
Charge for the period	200,499	761	**-**	19,948	**221,208**
Impairment	3,954	21	**-**	-	**3,975**
Disposals	(370,892)	(792)	**-**	-	**(371,684)**
Balance at 31 December 2013	**313,531**	**1,366**	**-**	**63,019**	**377,916**
Net book value at 1 January 2013	**308,241**	**2,590**	**-**	**156,414**	**467,245**
Net book value at 31 December 2013	**228,241**	**1,918**	**-**	**136,466**	**366,625**

The increase in intangible assets is mainly attributed to the acquisition of OOO Noginsky Teplovoy Center (see Note 6).

Note 9. Long-term financial assets

	At 31 December 2014	At 31 December 2013
Loan E.ON SE	-	2,417,604
RusHydro shares	31,976	25,671

Contribution to special partnership	23,767	-
Total	**55,743**	**2,443,275**

The loan E.ON SE was fully repaid on 6 August 2014 (see Note 5).

Note 10. Inventories

Breakdown of inventories:

	At 31 December 2014	At 31 December 2013
Fuel production supplies	1,356,679	1,202,973
Materials and supplies	771,468	671,194
Other inventory	36,323	26,620
Provision for impairment of inventory	(14,931)	(31,620)
Total	**2,149,539**	**1,869,167**

Note 11. Accounts receivable and prepayments

	At 31 December 2014	At 31 December 2013
Trade receivables	7,623,270	8,292,520
Other financial receivables	356,960	287,418
Less provision for impairment of accounts receivable	(3,132,345)	(2,577,508)
Total financial assets within trade and other receivables	**4,847,885**	**6,002,430**
Prepayments to suppliers	471,194	150,633
VAT recoverable	402,282	199,517
Due from budget (excluding VAT)	261,722	412,104
Total accounts receivable and prepayments	**5,983,083**	**6,764,684**

Management has determined the provision for impairment of accounts receivable based on the customers' credit history, customer payment trends, the outlook for payments and settlements, and an analysis of expected future cash flows. Management believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements and that the recorded value therefore approximates the fair value.

The above mentioned accounts receivable and prepayments include amounts receivable from related parties (see Note 5).

Note 12. Short-term financial assets

The Group's funds in the form of deposits were placed in OAO Sberbank (Moody's credit rating Baa1), OAO Vneshtorgbank (Moody's credit rating Baa1), Gazprombank (OAO) (Moody's credit rating Baa3), ZAO Unicreditbank (Fitch credit rating BBB+), OAO Nordea Bank (Fitch credit rating BBB+) and DZ Bank AG (Fitch credit rating A1). The interest on these short-term deposits is fixed and, therefore, unexposed to the risk of changes in market interest rates.

	Effective interest rate, %	Balance at 31 December 2014 (foreign currency, thousand)	Balance at 31 December 2014 (RUB, thousand)	Balance at 31 December 2013 (foreign currency, thousand)	Balance at 31 December 2013 (RUB, thousand)
Total short-term deposits					**8,318,302**
Short-term deposits in US dollars	2,95	5 313	298,928	26,300	860,778
Short-term deposits in Euros		-	-	5,727	257,524
Short-term deposits in Russian roubles	-	-	-		7,200,000

(RUB thousand)

Total promissory notes	**-**	**-**	**620,127**	**-**	**527,149**
Total short-term financial assets			**919,055**	**-**	**8,845,451**

The decrease in short-term financial assets is due to the management's decision not to place funds on deposit for a period longer than 90 days due to the difficult economic situation in the country and in order to reduce counterparty risk.

Note 13. Equity

The Group was formed through the combination of a number of businesses under common control. As the predecessor`s basis of accounting (see Note 2) was applied, the majority of the net equity recognised for the Group is based on the historic carrying value of the net assets contributed, as recorded in the IFRS financial statements of the predecessor enterprises, rather than the fair values of those assets. Since the Group was formed as a result of a series of share issues, the consolidated statements of changes in equity reflects respective additions to the share capital equal to the statutory nominal value of the shares issued.

The actuarial gains and losses, cash flow hedges and fair value losses on available-for-sale financial assets are recorded in other reserves. For details of cash flow hedge applied by the Group starting from 1 January 2009 (Note 2 and Note 25).

Each component of other comprehensive income, including current and deferred tax effects, is represented in the table below:

	2014			**2013**		
	Pre-tax amount	**Income tax expense**	**Post-tax amount**	**Pre-tax amount**	**Income tax expense**	**Post-tax amount**
Available-for-sale financial assets	1,140	-	1,140	3,044	-	3,044
Actuarial gain/(loss)	619,756	(123,951)	495,805	158,681	(31,736)	126,945
Cash flow hedges	1,902,224	(380,445)	1,521,779	739,273	(147,855)	591,418
Total	**2,523,120**	**(504,396)**	**2,018,724**	**900,998**	**(179,591)**	**721,407**

Share capital. The share capital consists of 63,048,706,145 ordinary shares with nominal value of 0.40 roubles totalling RUB 25,219,482 thousand. There were no changes in the share capital in 2014 and 2013.

Dividends. In accordance with the Russian legislation, the Group distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Company's financial statements are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations dealing with the profits distribution rights are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

The Company's General Shareholders' Meeting held on 26 June 2014 made the decision to pay dividends based on FY2013 results for the amount of RUB 18 926 506 thousand, or RUB 0.30 per 1 ordinary share. In addition, the Meeting decided to direct on dividends RUB 5 000 000 from retained earnings.

Note 14. Pension liabilities

The tables below provide information on defined benefit obligations, pension expenses, plan assets and actuarial assumptions at 31 December 2013 and 2014. Amounts recognised in the consolidated statement of financial position are:

(RUB thousand)

	At 31 December 2014	At 31 December 2013
Present value of funded obligations	518,631	802,713
Fair value of plan assets	(69,271)	(81,873)
Total deficit of funded plans	**449,360**	**720,840**
Present value of unfunded obligations	211,256	307,026
Net liability in the consolidated statement of financial position	**660,616**	**1,027,866**

Amounts recognised as income and expense in the consolidated statement of comprehensive income:

	Year ended 31 December 2014	Year ended 31 December 2013
Current service cost	66,807	69,640
Interest cost	86,403	92,878
Interest income on plan assets	(5,337)	(6,223)
Past-service cost	(9,971)	36,342
Actuarial gains, recognised in the current period	(10,915)	(594)
Net expense recognised in profit and loss	**126,987**	**192,044**

Movements in the net liability recognised in the consolidated statement of financial position are as follows:

	At 31 December 2014	At 31 December 2013
Net liability at the beginning of the year	1,027,866	1,104,635
Net expense recognised in profit and loss	126,987	192,044
Employer contributions(payments made directly by the company)	(15,345)	(36,792)
Employer contributions (to plan assets)	(17,818)	
Actuarial loss recognised in other comprehensive income	(461,074)	(232,021)
Net liability at the end of the period	**660,616**	**1,027,866**

Changes in the present value of the Group's pension obligations are presented below:

	Year ended 31 December 2014	Year ended 31 December 2013
Present value of pension obligations at the beginning of the year	1,109,739	1,188,651
Current service cost	66,807	69,640
Interest cost	86,403	92,879
Actuarial gains, arising of experience adjustments on plan liabilities	(146,261)	(200,306)
Actuarial gains, arising from changes in financial assumptions	(327,805)	(37,648)
Past-service cost	(9,971)	36,342
Benefits paid (payments made directly by the company)	(15,344)	(13,564)
Benefits paid from plan assets	(33,681)	(26,254)
Present value of defined benefit obligations (DBO) at the end of the year	**729,887**	**1,109,739**

In 2014 (negative) prior service cost appeared in the amount of RUB (9,971) thousand as a result of a few changes in the benefit rules in the Shaturskaya GRES.

The duration of liabilities is on average 5 years.

Adjustments arose due to the actual results differing from assumptions for assets and obligations:

	At 31	At 31	At 31	At 31	At 31

	December 2014	December 2013	December 2012	December 2011	December 2010
Present value of defined benefit obligations (DBO)	729,887	1,109,739	1,188,651	1,022,729	937,142
Fair value of plan assets	(69,271)	(81,873)	(84,016)	(81,758)	(85,952)
Net liability in the consolidated statement of financial position	660,616	1,027,866	1,104,635	940,971	851,190
Gains arising from experience adjustments for plan liabilities	146,261	200,306	(19,820)	(31,911)	(16,796)
(Gains)/losses arising from experience adjustments for plan assets	(2,076)	(5,340)	2,784	2,133	8,442

The principal actuarial assumptions are as follows:

	At 31 December 2014	At 31 December 2013
Discount rate	13,5%	7.50%
Inflation	7%	5%
Future salary increase	7%	9.20%
Future financial support increases	7%	5%
Staff turnover	2,5%	2.5%
Mortality	Russian population table for 1998	Russian population table for 1998

The Group anticipates that the retirement age is 58 years for men and 54 years for women.

The movements in the plan assets are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Fair value of plan assets at 1 January	81,873	84,016
Interest income on plan assets	5,337	6,223
Actual actuarial loss excluding interest income on plan assets	(2,077)	(5,340)
Employer contributions	17,819	23,227
Benefits paid	(33,681)	(26,253)
Fair value of plan assets at 31 December	**69,271**	**81,873**

Contributions expected to be paid to the plan during the annual period starting from the reporting date are RUB 40,000 thousand.

Plan asset structure:

	At 31 December 2014	At 31 December 2013
Corporate bonds	40%	24%
Shares in mutual funds	15%	17%
Bank deposits	14%	43%
Real estate	14%	0%
Shares	10%	0%
Accounts receivable	7%	15%
Cash	0%	1%

Sensitivity analysis of DBO as at 31 December 2014 is as follows:

	DBO changes, %
Base case	0%
Discount rate of 12.5%	5%

(RUB thousand)

Real wage increases of 1% per annum	3%
Inflation of 6% per annum	- 4%
Mortality 10% less than in the base case	1%
Disability 10% less than in the base case	0%
Staff turnover of 5% for all ages below 50	-2%

The sensitivity analysis was performed with respect to all benefits and with respect to both active and inactive participants.

The plan exposes the company to some extent to the risk of longevity (as the company provides life-long financial support) and interest rate risk, but these are very limited, especially as the pension liability is settled upon retirement.

The regulatory environment of the plan is such, that there is no funding requirement. Contributions to the pension fund are tax deductible up to a certain limit.

Note 15. Accounts payable and accruals

	At 31 December 2014	At 31 December 2013
Financial liabilities	**4,982,180**	**3,226,921**
Trade payables	2,353,155	2,295,346
Accounts payable to capital construction contractors	1,636,935	623,033
Dividends payable	453,467	229,703
Other payables	538,623	78,839
Non-financial liabilities	**1,145,133**	**919,332**
Staff payables	1,118,725	909,349
Advances from customers	26,408	9,983
Total	**6,127,313**	**4,146,253**

The Annual General Shareholder`s Meeting of E.ON Russia, decided on 27 June 2014 to pay dividends on the Group`s common stock based on the financial results for 2013 in the amount of RUB 18,926,506 thousand, and from retained earnings of prior years in the amount of RUB 5,000,000 thousand. At the date of approval of this condensed consolidated interim financial information funds for payment of these dividends have been paid to the depositary for further distribution to shareholders.

Note 16. Taxes payable other than income tax

	At 31 December 2014	At 31 December 2013
VAT	723,082	939,918
Property tax	129,869	19
Employee taxes	47,058	64,467
Other	41,269	54,584
Total	**941,278**	**1,058,988**

Note 17. Income tax

Income tax charge

	Year ended 31 December 2014	Year ended 31 December 2013
Current income tax charge	(4,142,519)	(2,808,792)

(RUB thousand)

Deferred income tax charge	90,347	(573,531)
Total	**(4,052,172)**	**(3,382,323)**

During the year ended 31 December 2014, the Group branches were subject to income tax on taxable profits at the following rates:

- 20% for such branches as Smolenskaya GRES, Shaturskaya GRES, Berezovskaya GRES and OAO E.ON Russia's Moscow head office;
- 18% for Surgutskaya GRES Branch (according to Article 2.5 of Khanty-Mansi Autonomous Area-Yugra Law No. 87-OZ of 30 September 2011 on corporate income tax rates payable to the Khanty-Mansi Autonomous Area-Yugra budget);
- 15.5% for Yayvinskaya GRES Branch (according to Article 15, Perm Region Tax Law No. 1685 of 16 August 2001).
-

The reconciliation between the expected and actual tax charge is provided below:

	Year ended 31 December 2014	Year ended 31 December 2013
Profit before income tax	**20,937,102**	**17,814,254**
Theoretical tax charge at the statutory tax rate (20% for the year ended 31 December 2012 and 2011)	(4,187,420)	(3,562,851)
Non-deductible expenses/ non-taxable income	(212,158)	(143,400)
Tax benefits effect	347,406	323,928
Total income tax charge	**(4,052,172)**	**(3,382,323)**

Effective tax rate for years 2014 and 2013 are 19.4% and 19.0% accordingly.

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets and liabilities are measured at the rate applicable when the temporary differences reverse, which is expected to be 20% as of 31 December 2014 and 31 December 2013. The Group received tax reductions for some of its plants, but due to the fact that the Group has insufficient evidence that those reductions will be sustained for the longer term the Group has applied statutory rate of 20% to record its deferred tax assets and liabilities.

Deferred tax assets (liabilities) calculated on the temporary differences for balance sheet items are as follows:

	At 31 December 2014	Movement for 2014 recognised in the income statement	Movement for 2014 recognised in the statement of comprehensive income	Acquisition	At 31 December 2013
Property, plant and equipment	(6,223,139)	(630,090)		(114,465)	(5,478,585)
Accounts payable and other Accruals	231,143	72,922			158,221
Intangible assets	(169,192)	8,153		(186,294)	8,949
Pension liabilities	132,123	18,765	(92,215)		205,573
Accounts payable and other accruals	127,260	219,345			(92,085)
Other non-current assets	63,773	24,504			39,269
Inventories	61,519	61,868			(349)

(RUB thousand)

Other non-current liabilities	54,375	54,375			
Short-term financial liabilities/assets	(7,910)	226,338	(232,590)		(1,658)
Other	31,440	34,167			(2,727)
Deferred tax liability at the end of the year	**(5, 698,608)**	**90,347**	**(324,805)**	**(300,759)**	**(5,163,392)**

	At 31 December 2013	Movement for 2013 recognised in the income statement	Movement for 2013 recognised in the statement of comprehensive income	At 31 December 2012
Property, plant and equipment	(5,478,585)	(521,693)		(4,956,892)
Pension liabilities	205,573	31,051	(46,404)	220,926
Accounts payable and other Accruals	158,221	33,669		124,552
Accounts receivable	(92,085)	(167,405)		75,320
Other non-current assets	39,269	5,754		33,515
Intangible assets	8,949	(417)		9,366
Other	(4,734)	45,510	(57,178)	6,934
Deferred tax liability at the end of the year	**(5,163,392)**	**(573,531)**	**(103,582)**	**(4,486,279)**

Note 18. Revenue

	Year ended 31 December 2014	Year ended 31 December 2013
Electricity and capacity	75,319,817	76,638,549
Heat	1,245,721	1,109,758
Other	1,127,596	1,032,197
Total	**77,693,134**	**78,780,504**

The Group sells electricity and capacity through the wholesale electricity and capacity market (“WECM”), under regulated contracts with predetermined volumes and tariffs approved by Federal Tariff Service, and at competitive (unregulated) prices.

Electricity and capacity are sold on the WECM directly to retail companies. At the same time, some WECM transactions are conducted on the day-ahead market or balancing electricity market, through commission agreements with ZAO Centre for Financial Settlements (“CFS”).

CFS is the entity responsible for ensuring secure and timely financial settlements under all contracts involving WECM participants. Its principal function is to provide a range of services regarding the calculation of WECM participants’ receivables and liabilities, as well as those regarding the fulfilment of financial settlements between them.

The companies, industrial consumers or the generation companies which buy the electric power and power for ensuring own deliveries in the regulative sector are the actual contractors in transactions on WECM made through CFS who acts as the commission agent. The enterprises which are under state control act as contractors, too.

Note 19. Other operating income

(RUB thousand)

	Year ended 31 December 2014	Year ended 31 December 2013
Prior periods' gains	241,523	664,827
Gain on disposal of property, plant and equipment	174,460	85,140
Insurance compensation	108,730	-
Release of provision for bonuses and insurance provision	52,487	11,484
Penalties from other market participants	18,538	60,040
Other income	13,246	8,311
Gain on disposal of inventories	10,705	2,494
Release of contingency provision	-	3,892
Total	**619,689**	**836,188**

Prior periods' gains include decrease in property tax payable to the budget related to previous year amended tax returns in the amount of RUB 226,367 thousand (2013: RUB 658,167 thousand).

Note 20. Operating expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Fuel	37,605,895	36,498,787
Depreciation and amortisation	6,930,848	9,916,448
Staff costs	5,594,717	5,417,509
Repairs and maintenance	1,541,009	1,688,865
Purchase of electricity and heat	1,224,865	1,032,452
Taxes other than income tax	1,208,899	1,099,169
Operational dispatch management	1,191,173	1,148,472
Provision for impairment of accounts receivable	554,837	1,124,581
Raw materials and supplies	306,257	362,594
Security	397,721	359,603
Water usage expenses	166,478	169,363
Insurance cost	161,596	159,109
Rent expenses	160,849	134,884
Impairment of property, plant and equipment and intangible assets	158,638	3,439,953
Transportation expenses	132,196	120,906
Social expenditure	20,326	26,391
Bank services	10,570	7,913
Other expenses	1,925,263	1,171,192
Total	**59, 292,137**	**63,878,191**

Staff costs include:

	Year ended 31 December 2014	Year ended 31 December 2013
Salaries and wages, including payroll taxes	4,708,148	4,633,737
Pension costs – defined contribution plans (including state pension fund)	797,212	684,871
Pension costs – defined benefit plans	54,513	69,640
Termination benefits	34,844	29,261
Total staff costs	**5,594,717**	**5,417,509**

Note 21. Finance income and expense

Finance income

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income (deposits and cash)	1,564,271	2,167,493
Foreign exchange gains	372,727	-

Other interest income	97,090	83,741
Total	**2,034,088**	**2,251,234**

Finance expense

	Year ended 31 December 2014	Year ended 31 December 2013
Effect of liability discounting	117,672	136,657
Foreign exchange losses	-	38,824
Total	**117,672**	**175,481**

Note 22. Basic and diluted earnings per share payable to shareholders of OAO E.ON Russia

Basic earnings per share are calculated by dividing the net profit attributable to the Group's shareholders by the weighted average number of outstanding ordinary shares, excluding treasury stock.

	Year ended 31 December 2014	Year ended 31 December 2013
Weighted average number of ordinary shares, outstanding during the year, net (shares)	63,048,706,145	63,048,706,145
Profit attributable to the shareholders of OAO E.ON Russia (RUB thousand)	16,813,434	14,374,747
Basic and diluted earnings per share attributable to shareholders of OAO E.ON Russia (in RUB)	0,27	0,23

In 2014 and 2013 the Group was not party to contracts with a potential dilutive effect.

Note 23. Commitments

Sales Commitments. The Group sells electricity (capacity) in two wholesale market sectors existing during the transition period: the free trade sector and the regulated trade sector (under regulated bilateral contracts).

The Group has entered into a number of annual electricity sales agreements with ZAO CFS and retail companies.

In accordance with the agency contract between the Group, ZAO CFS, OAO System Operator, OAO ATS and NP Market Council for Organising Efficient System of Trading at Wholesale and Retail Electricity and Capacity Market, the Group has concluded contracts for sales of capacity with wholesale market counterparties (contracts for sales of capacity).

Fuel commitments. The Group has concluded a number of fuel supply contracts (natural gas, fuel oil and coal).

The principal natural gas and coal suppliers are OAO Surgutneftegaz, OAO NOVATEK, OOO NOVATEK-Perm, OAO NK Rosneft and OOO LUKOIL-Rezervnefteproduct. Contracts with these suppliers have been concluded for the mid-term and long-term.

The mail coal supplier is OAO Sibirskaya ugolnaya energeticheskaya kompaniya. Contract with it have been concluded for the term more than 5 years up to 2025.

Contracts with suppliers of gas and coal allow changes in the volume supply of fuel according to the actual needs of the Group with certain take-or-pay conditions for contracts. Estimated cost of purchasing gas and coal in 2015 is RUB 38,043,980 thousand and RUB 4,232,652 thousand, respectively (without VAT).

Purchase of fuel oil for the needs of power plants of the Group is performed periodically, as the need arises. Contracts for the supply of fuel oil are concluded following appropriate procurement procedures.

Estimated cost of purchasing oil for 2015 is – RUB 84,690 thousand (for Berezovskaya and Smolenskaya GRES).

All fuel purchase contracts of the Group were concluded for the purpose of fuel receipt in accordance with the Group's expected own usage requirements and are out of scope of IAS 39 "Financial Instruments: Recognition and Measurement".

Capital commitments. As of 31 December 2014, the Group had contractual capital expenditure commitments with respect to property, plant and equipment totalling RUB 5,139,446 thousand (2013: RUB 14,236,934 thousand). Most of the commitments (RUB 4,582,225 thousand) refer to commitments of realization of the project "Construction of the 3rd power unit PSU-800 on the basis of branch "Berezovskaya GRES".

This construction was conducted by JSC Energoproyekt (general contractor). On 17 May 2011, OAO E.ON Russia (Customer), OAO Energoproyekt (Contractor) and JSC Zarubezhenergoproyekt (Guarantor) concluded an agreement for the design, engineering, supply and construction on a turnkey basis of the third power unit PSU-800 at Berezovskaya GRES (hereinafter – Project), according to which the Contractor fulfils the construction (hereinafter - Agreement).

During the implementation of the Project it became clear that the Contractor was not able to fulfill the assumed obligations on finalizing the construction in time and for the fixed price determined by the Agreement.

Therefore, OAO E.ON Russia made a decision to carry out payment to subcontractors and suppliers directly to minimize the above mentioned risks. On 7 February 2014, a new branch of OAO E.ON Russia was registered in the Krasnoyarsk region – «E.ON Engineering". This branch was created for the completion of the construction of the third power unit at Beryozovskaya GRES. Later on, the branch may be involved in the implementation of other projects of the Company.

On 25 February 2014, an amendment to the contract was signed, that specified main parameters of premature contract termination, including the transition of rights and responsibilities within sub-Contracts from Company's Contractor to the Company.

During the first half of 2014 the 277 bilateral agreements were concluded with JSC Energoproyekt for closed contracts were concluded, the 392 tripartite agreements with JSC Energoproyekt and counterparties for active contracts were signed where E.ON Russia took over rights and obligations of JSC Energoproyekt. The final separation agreement was signed in September 2014.

Despite the early termination of the contract with OAO "Energoproyekt", the Group expects the construction to be finished on 1 June 2015, i.e. 5 months ahead of schedule (1 November 2015).

Note 24. Contingencies

Political environment. The Group's operations and earnings continue, intermittently and to varying degrees, to feel the impact of Russian political, legislative, fiscal and regulatory developments, including those related to environmental protection.

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

Social obligations. The Group has a responsibility to those regions where it operates to contribute to the development of favourable living conditions, create jobs and minimise harm to the environment. It also has a responsibility to the public and government authorities to pay taxes, support important public initiatives, and participate in the social and economic development of the regions.

Guided by the principles of corporate responsibility, the Group believes it is important to contribute to the development of those regions where it has a presence. Following this, the Group is extensively involved in funding social and charity programmes to support vulnerable segments of society, first and foremost: children and pensioners. Particular attention is paid to the development of educational programmes for schoolchildren and students. A variety of sports events are also supported.

The Group continues traditions present in power plants which have come under its control: providing charity support to various organisations, public associations and individuals in those regions where these power plants operate. The Group spent RUB 31,221 thousand on these programmes in 2014 (in 2013: RUB 28,449 thousand).

Legal proceedings. Group entities are party to certain legal proceedings arising in the ordinary course of business. Management does not feel that the final outcome of current legal proceedings and claims could have a material effect on the Group's financial standing.

The Group has created a provision in relation to lawsuits where the risk of a negative outcome is assessed as being high, as of 31 December 2014 the amount of the provision was RUB 4,977 thousand (31 December 2013: RUB 12,550 thousand).

At the date of approval of these financial statements for issue, management believes that it has made adequate provision for all resulting significant probable losses if such claims are initiated and disputed.

Tax contingencies. The Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Group management's interpretation of such legislation as applied to the Group's transactions and activity may be challenged by the regional and federal authorities.

The Russian tax authorities may take a more assertive and sophisticated approach in their interpretation of the legislation and tax assessments. Tax control in the Russian Federation gradually increases, including higher risk of review impact on the tax base of operations that do not have a clear business purpose or transactions with counterparties that do not comply with the tax laws. Tax inspections may cover three calendar years preceding the year in which the decisions were made about the inspection. Under certain circumstances, can be checked even earlier periods.

As Russian tax legislation does not provide definitive guidance on certain issues, the Group from time to time applies such interpretation of the legislation, which leads to a decrease in the total amount of taxes for the Group. Management believes that its position with respect to taxes and the Group has adopted the interpretation can be confirmed, however, there is a risk that the Group will incur additional charges if the position of leadership with respect to taxes and the application of the Group interpretations be challenged by the tax authorities. The impact of such a development cannot be estimated reliably, it may be significant from the point of view of the financial position and / or operations of the Group as a whole.

As of 31 December 2014, management believes that its interpretation of the relevant law is appropriate and that the Group's position is sustainable as it relates to application of tax, currency and customs legislation.

In addition to the issues noted above, management believes that the Group has at the balance sheet date contingent liabilities related to tax risk, the probability of which is rated as "low" in the amount of RUB 288,862 thousand. These risks relate to disputes with tax authorities for property tax (Smolenskaya GRES and Shaturskaya GRES). Management intends to defend the Group's position in court if it is challenged by the tax authorities.

Environmental matters. The Group has a long history of operating in the Russian electricity industry. The enforcement of Russian environmental regulation is evolving, and the position of government authorities on enforcing these regulations is continually being reconsidered.

The Group understands its responsibility for environmental protection and the rational use of natural resources. The Group operations are directly related to the exploitation of natural resources and have a direct impact on the environment. The Group endeavours to fully understand the impact of its operations on the environment and to minimise any negative effects.

The Group has implemented and currently operates the Environmental Management System (EMS), which determines the Group's policies, goals and objectives for environmental protection and security as well as the tools needed to achieve these targets.

The Group annually performs established control procedures such as internal audit of EMS and industrial environmental monitoring designed to identify gaps in EMS operation. When any such gaps are identified, the Group develops corrective actions for their prompt removal. In addition, the Group management reviews effectiveness of EMS operation on an annual basis.

Using the information obtained as a result of this work, the Group management decides whether it is reasonable to implement specific environmental protection measures and to include them in the Group's relevant financial programmes.

The Group introduced documented procedures to manage key environmental aspects in order to implement specific initiatives for compliance with the corporate and regulatory requirements.

In 2013 the Group conducted a certified audit of the EMS to meet the requirements of the international standard ISO 14001:2004. Certification was carried out by Certification Association "Russian Register" accredited international certification bodies, members of the International Accreditation Forum (IAF).

In 2014 the Group has successfully passed the first inspection external supervisory audit to confirm with the certificate of conformity of the environmental management system requirements of ISO 14001: 2004 for the production of electricity and heat.

Based on the audit, it was found out that the objectives and goals for 2014 in the area of environmental protection and rational use of natural resources and (key performance indicators of the Group in the area of environmental protection) are still relevant. All the environmental goals of OAO E.ON Russia for the prior year have been achieved.

According to the results of the management review of the EMS recognizes adequacy and effectiveness, as confirmed by the auditors.

The process of the Group’s internal environmental auditwas recognised to be efficient as well..

The auditors have noted strengths of the EMS and evidence of continuous improvement:

– Chemical laboratory checked the branches of the Group accredited for technical competence, which is the official recognition of their competence in the field of accreditation to perform measurements, including the conduct of industrial environmental monitoring;

– The Group issued and used a sample list of the causes of the discrepancies, which greatly improved the quality of the development of corrective actions;

– - In the third quarter of 2014 and an automated environmental and legal system Ekoyurs. ACS EKOYURS aimed at helping Ecology in his daily work and closes the following areas:

- monitoring compliance with the organization of environmental legislation;
- the possibility of internal audit;
- maintaining tables for accounting and reporting;
- legal support;
- informational support;

Currently, the system is being loaded with information. Using the ACS EKOYURS allows the entities’ environmental servicesto:

- conduct electronic assessment of compliance with applicable environmental legislation requirements in terms of either individual environmental aspectsor the organization as a whole. The assessment of compliance is carried out by fixing the status for each of the requirements in the register;
- assess the availability of permits required to comply with the legislation applicable to the entity’s activities;
- evaluate the implementation of the necessary measures on managing each environmental aspect.

- develop a list of prescriptions received in the course of inspections carried out by the governmental authorities and internal audit function;
- load statistical information for the corresponding period (month, quarter, year), including data on the number of applicable environmental requirements (including the data on requirements not met), the number of required permits.

Using this system was recognized as improvement to SEM by leading Russian and foreign certification bodies SEM.

The Group is implementing a dry ash disposal construction project at Berezovskaya GRES. This system is principally intended for environmentally safe storage of ashes and slag waste for sustainable operation of the power plant without allocation of additional land plots for storing such waste (with similar area filled in within 3 years with hydraulic ash disposal and within 40 years with dry ash disposal). Another intended purpose of the system is to reduce water usage for ashes and slag waste transportation (water is used only for humidifying to exclude dusting).

Work continues on the construction of purification facilities for waste water at Yavinskaya GRES. To date, there were completed design, foundation and surface works and major supplies of main and auxiliary equipment. The stage of completion of construction works constitutes around 95%. Preparation works for registration permits for the discharge of treated water are in the final stage. The main objective of the project is the implementation of stringent requirements on the maximum allowable concentrations imposed on the emissions in the fishery water bodies.

Effective from 26 December 2014 the Russian Federation Government Regulation N 1509 entered into force , according to which the rate of payment for water use shall be increased in 2015-2025 by1.15-4.65 times and will be indexed further for inflation. Thus, it is necessary to start planning and implementing measures to optimize the use of water resources, in particular, on a once-through station (Yayvinskaya GRES) it is necessary to switch to closed loop cooling (construction of cooling towers or hybrid cooling systems on the basis of dry capacitors). In the other branches it is necessary to revise and make more precise individual water consumption rates and install metering equipment at water intakes and outlet.

On 21 July 2014 the Federal Law N 219-FZ "On Amending the Federal Law “On Environmental Protection”and Certain Legislative Acts of the Russian Federation” was singed with effect from 1 January 2015. The Law is aimed at establishing a new system of regulation of environmental protection. Exploiting the objects of the I and II categories (objects that have a significant negative impact on the environment and related areas of application of the best available technologies), starting from 1 January 2019 the Group will also face more stringent rate setting in the area of negative impacts based on the best available technologies (BAT), including equipment and technologies designed to meet the latest developments in science, with a minimum level of environmental pollution and economically affordable for businesses.

During the transition to technological rate setting the cost loading will increase taking into account BAT implementation or application of significantly increased rates (75-and 100-fold) for the calculation of pay for negative impact in the absence of measures to reduce that impact. In addition, the Law provides for the procedure of acquisition of a complex environmental permit for legal entities and individual entrepreneurs engaged in business activities at the facilities of Category I.

Currently, the Group exercises control and continuous supervision over the risks associated with the environmental protection.

The risks minimization is managed by monitoring of changes in legislation and assessment of the Groups’ activities compliance with regulations.

It is impossible to assess the potential obligations arising as a result of changes in the requirements of effective laws and regulations and arbitration practice, but they may appear to be material.

The management believes that in the conditions of effective legislation on environmental protection the Group does not have material liabilities associated with environmental pollution.

(RUB thousand)

Note 25. Financial instruments and financial risk factors

Within the Group, the risk management control function regarding financial risks, operational risks and legal risks is carried out by the Risk and Finance Committee of the Board of Directors. Financial risks comprise market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and ensure that exposure remains within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Market risk

Interest rate risk. The Group is not significantly exposed to fair value interest rate risk, as the Group does not have significant financial assets and liabilities with fixed interest rates. However, the Group does have interest-bearing assets which are exposed to cash flow interest rate risk. The Group's significant interest-bearing assets are disclosed in Note 12.

Currency risk. Profit and cash flows from the Group's current operations are largely independent of changes in the Russian rouble's exchange rate. The Group sells the produced electricity and heat in Russia and receives payment in Russian roubles; hence associated operational expenses are also mainly denominated in roubles.

The Group does however have foreign-currency commitments as part of commitments in connection with the service contracts for maintenance of new CCGT`s. A hedging strategy was developed and implemented against financial risks related to currency purchases for these commitments. The Group also has commitments that are not hedged.

The Group implemented a policy of cash flow hedging using foreign-currency bank deposits from 1 January 2009 to the end of Q1 2011 regarding currency risks related to foreign currencies cash outflows in the investment programme. In Q1 2011 the deposits were fully utilised and therefore the hedge was terminated as of the reporting date. As a result of commercial operation of CCGT-400 at Shaturskaya GRES, two CCGT-400 at Surgutskaya GRES and CCGT-400 at Yayvinskaya GRES, approximately RUB 54,870 thousand was transferred from other comprehensive income to the profit and loss in 2014 (2013: RUB 54,870 thousand), net of income tax. Cash flow hedging proved effective, and correspondingly no inefficiency was recognised in profit or loss during the reporting period.

Also in order to reduce the Group's foreign exchange risk exposure related to financing of the investment programme for the period from September 2010 to January 2012; in 2010 and 2011 the Group entered into derivative financial instrument transactions with OOO Deutsche Bank (the Company concluded USD and Euro forwards and a Euro option).

The Group also implemented a policy of cash flow hedging using foreign-currency bank deposits from 1 July 2012 regarding currency risks related to foreign currencies cash outflows under service contracts entered into for new combined-cycle plants and other contracts, the amount of obligations under which exceeds EUR 10 million.

The gain recognised on future exchange hedging instrument within other comprehensive income during the year ended 31 December 2014 was RUB 1,087,080 thousand (2013: RUB 283,581 thousand), net of income tax.

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

	At 31 December 2014			**At 31 December 2013**		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
Russian rouble	14,433,539	(4,672,079)	9,761,460	33,339,766	(3,203,134)	30,136,632

(RUB thousand)

	At 31 December 2014			At 31 December 2013		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
US Dollar	3,472,228	(63,137)	3,409,091	1,173,236	(10,677)	1,162,559
Euro	1,797,973	(246,964)	1,551,009	1,494,336	(13,110)	1,481,226
Total	**19,703,740**	**(4,982,180)**	**14,721,560**	**36,007,338**	**(3,226,921)**	**32,780,417**

The following table presents the Group's sensitivity to possible exchange rate changes applied at the reporting date relative to the Group entities' functional currency, with all other variables remaining constant:

	At 31 December 2014		At 31 December 2013	
	Impact on profit or loss	**Impact on other comprehensive income**	**Impact on profit or loss**	**Impact on other comprehensive income**
Incremental (loss) / profit from US Dollar strengthening by 20%	(12,627)	694,446	(2,135)	234,647
Incremental profit / (loss) from US Dollar weakening by 20%	12,627	(694,446)	2,135	(234,647)
Incremental (loss) / profit from Euro strengthening by 20%	(49,393)	359,595	(2,622)	298,867
Incremental profit / (loss) from Euro weakening by 20%	49,393	(359,595)	2,622	(298,867)

Exposure was only calculated for monetary balances denominated in currencies other than the Group's functional currency. The Group's exposure to currency risk at the balance sheet date is representative of the typical exposure during the year.

Credit risk. The financial assets that are potentially subject the Group to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation, consist principally of the following items:

	At 31 December 2014	At 31 December 2013
Cash	13,100,785	18,026,997
Trade receivables	4,490,925	5,715,012
Other long-term assets	780,272	689,185
Promissory notes	620,127	
Other receivables	356,960	287,418
Bank deposits	298,928	8,318,302
Contribution to special partnership	31,976	-
Available-for-sale financial assets	23,767	25,671
Loans issued	-	2,417,604
Total	**19,703,740**	**36,007,338**

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

Trade and other receivables

Management believes that the majority of customers whose balances are included in trade receivables represent a single class, as they have the same characteristics. Those customers belong to the same wholesale electricity market, which is regulated by NP ATS (Non-Commercial Partnership Trade System Administrator).

Due to the absence of an independent evaluation of buyers' and customers' solvency, credit risk is evaluated at the stage of entering into an agreement with a potential debtor. The Group evaluates the financial position and credit record of the counterparty. Existing receivables are monitored in the Group's divisions, and collection measures are taken regularly.

(RUB thousand)

Management has determined the provision for the impairment of accounts receivable based on the specific customer's financial position, customer's payment trends, subsequent receipts and settlements, and analysis of expected future cash flows. Management believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value approximates the fair value (Level 3 fair value hierarchy).

The Group tested trade and other receivables for impairment, and the results are as follows:

	At 31 December 2014	At 31 December 2013
Current	4,769,435	5,692,350
Impaired	3,132,345	2,577,508
Past-due but not impaired	78,451	310,080
Provision for impairment of accounts receivable	(3,132,345)	(2,577,508)
Total trade and other receivables	**7,980,231**	**8,579,938**

The movements in the provision for impairment of accounts receivable are provided in the table below:

	Year ended 31 December 2014	Year ended 31 December 2013
Balance at 1 January	2,577,508	1,539,977
Provision for impairment of accounts receivable	554,837	1,124,581
Accounts receivable write-down during the reporting period as bad debt	-	(87,050)
Balance at 31 December	**3,132,345**	**2,577,508**

The provision for doubtful accounts increased in 2013 due to an additional charge for impairment of receivables from supply companies which have been deprived of the status of the wholesale market participants in those periods.

Cash and cash equivalents

The Group's Board of Directors approved the list of banks acceptable for placing deposits. The Group continuously assesses these banks' financial position and reviews ratings assigned by independent agencies, past practice and other factors.

The Group placed cash and cash equivalents in the following banks (ratings are given as of 31 December 2014):

Name	Rating	Rating agency	At 31 December 2014	At 31 December 2013
OAO Sberbank of Russia	Ba1	Moody's	4,997,849	1,003,632
ZAO UniCredit Bank	BBB	Fitch	3,243,193	2,400,005
OOO HSBC Bank (PP)	BBB	Fitch	2,000,000	1,800,000
OAO Gazprombank	Ba1	Moody's	1,218,209	1,933,705
OAO VTB Bank	Ba1	Moody's	979,907	5,450,014
OAO Nordea Bank	BBB	Fitch	600,000	2,400,000
AKB ROSEVROBANK	B1	Moody's	14,789	-
Vozrozdenie	Ba3	Moody's	5,963	-
OAO Alfa-Bank	Ba1	Moody's	32	3,255
ZAO ING Bank Evrazia	Ba1	Moody's	-	1,500,000
DZ Bank AG	A1	Moody's	-	1,526,465
Other banks and cash in hand			40,843	9,921
Total cash			**13,100,785**	**18,026,997**

The decrease in cash and cash equivalents as of 31 December 2014 is mainly explained by the decrease in deposits with a maturity of less than 3 months classified as cash equivalents.

Liquidity risk. Reasonable liquidity risk management includes having sufficient funds to support the Group's continued operations.
The majority of the Group's accounts payable are of a short-term nature (less than one month) and stem from the Group's agreements with fuel suppliers and production-related service providers.

(RUB thousand)

The Group has significant commitments as part of its investment programme and is planning to meet the associated expenditure from funds placed on deposit and cash flows from operating activity. Management controls its liquidity risk by preparing detailed cash flow forecasts.

Fair values. Management believes that the fair value of financial assets and liabilities approximates their carrying value (Level 3 fair value hierarchy).

Reconciliation of classes of financial instruments with measurement categories
Under IAS 39, the Group classifies its financial assets into the following categories: (a) loans and receivables, and (b) available-for-sale financial assets. The following table provides a reconciliation of the classes of financial assets with these measurement categories as of 31 December 2014 and 2013:

	At 31 December 2014	At 31 December 2013
ASSETS		
Loans and receivables		
Accounts receivable and prepayments (Note 11)	**4,847,885**	**6,002,430**
Trade receivables	4,490,925	5,715,012
Other financial receivables	356,960	287,418
Short-term financial assets (Note 12)	**919,055**	**8,845,451**
Bank deposits	298,928	8,318,302
Promissory notes	620,127	527,149
Long-term financial assets	**780,272**	**3,106,789**
Promissory notes	636,010	566,987
Loans issued to employees	144,262	122,198
Loans issued to related parties (Note 5)	-	2,417,604
Cash and cash equivalents	**13,100,785**	**18,026,997**
Total loans and receivables	**19,647,997**	**35,981,667**
Available-for-sale financial assets	23,767	
Long-term financial assets	**23,767**	25,671
Total available-for-sale financial assets	**31,976**	**25,671**
Total financial assets	**19,703,740**	**36,007,338**

Note 26. Risks associated with capital (capital management)

When managing capital, the Group's objectives are to safeguard the Group's ability to continue as a going concern and provide returns to shareholders, and to maintain an optimal capital structure to reduce capital costs. Russian law details the following capital requirements:

– Share capital must be at least 1,000 minimum (monthly) wages as of the company's registration date;
– If the company's share capital exceeds its net assets, the company must decrease its share capital to a value not exceeding its net assets;
– If the company's net assets are below the minimum allowed share capital, the company will be subject to liquidation.

As of 31 December 2014 and 31 December 2013, OAO E.ON Russia's capital complied with these requirements.

The Group's capital ensures the Group's ability to continue operating, provide returns to shareholders and remuneration to other stakeholders, and to maintain an optimal structure for increasing return on capital.

To support or adjust the capital structure, the Group can regulate the amount of dividends that have been paid out, return capital to shareholders, issue new shares or sell assets to repay debts.
The Group uses the debt factor to manage capital structure.

(RUB thousand)

The debt factor is calculated as net debt divided by EBITDA. The value of net debt is determined as the sum of total financial and pension liabilities in the consolidated statement of financial position less total financial assets.

The Group's strategy in 2014 was to maintain the debt factor at a level not exceeding 3. The debt factor at 31 December 2014 and 2013 is presented below:

	At 31 December 2014	At 31 December 2013
Trade and other receivables (Note 11)	4,847,885	6,002,430
Short-term financial assets (Note 12)	919,055	8,845,451
Cash and cash equivalents	13,100,785	18,026,997
Long-term financial assets	836,015	3,132,460
Total financial assets	**19,703,740**	**36,007,338**
Accounts payable and accruals (Note 15)	(4,982,180)	(3,226,921)
Total financial liabilities	**(4,982,180)**	**(3,226,921)**
Pension liabilities	**(660,616)**	**(1,027,866)**
Excess of financial assets over financial and pension liabilities	14,060,944	31,752,551

The nil debt factor demonstrates low dependence on external financing at the reporting date.

Note 27. Segment information

The Group's chief operating decision-maker are the General Director and Management board (hereinafter «Chief operating decision-maker»), who review the Group's internal reporting forms prepared in accordance with E.ON's Accounting Manual in order to assess the Group's performance and allocate resources efficiently. E.ON's Accounting Manual is based on IFRS; however, the amounts may differ as the Company's internal reporting forms are intended for the purposes of preparing the consolidated financial statements for the entire E.ON Group. Operating segments are determined based on the analysis of the above internal reporting forms.

The Chief operating decision-maker considers business from the power plants' perspective, i.e. assessing the performance of each of the 5 power plants: Surgutskaya GRES-2, Berezovskaya GRES, Shaturskaya GRES, Yayvinskaya GRES and Smolenskaya GRES.

Surgutskaya GRES-2, Berezovskaya GRES, Shaturskaya GRES, and Yayvinskaya GRES are aggregated into a single operating segment, comprising more than 90% of the Group's revenue, as they have similar economic and other characteristics.

The operating segment Smolenskaya GRES comprises less than 4% of the total revenue and 1% of assets.

Other segments include expenses of Moscow representative office and financial information of subsidiaries.

The Chief operating decision-maker assesses operating segments' performance based on earnings before interest, tax, depreciation and amortisation (EBITDA). In addition, the Chief operating decision-maker is provided with information on depreciation/amortisation of non-current assets and earnings before interest and tax (EBIT).

(RUB thousand)

	Year ended 31 December 2014	Year ended 31 December 2013
Earnings before interest, tax, depreciation and amortisation (EBITDA) for five power plants	28,193,688	31,523,682
Other segments	(1,664,839)	(2,502,689)
Total earnings before interest, tax, depreciation and amortisation (EBITDA)	**26,528,849**	**29,020,993**
Depreciation/amortisation	(7,555,256)	(8,264,325)
Total earnings before interest and tax (EBIT)	**18,973,593**	**20,756,668**

Reconciliation of earnings before interest and tax (EBIT) by reporting segments as provided to the Chief operating decision-maker to profit before income tax according to this financial information of the Group:

Earnings before interest and tax (EBIT)	**18,973,593**	**20,756,668**
Adjustment of positive currency difference in EBIT	(441,240)	-
Finance income	2,034,088	2,251,234
Finance expense	(117,672)	(175,481)
Other adjustments	488,333	(5,018,167)
Profit before income tax	**20,937,102**	**17,814,254**

Other adjustments are mainly related to the following items:

	Year ended 31 December 2014	Year ended 31 December 2013
Difference in depreciation and impairment of property, plant and equipment and capitalised repair costs	411,448	(5,109,087)
Difference in forex	77,324	-
Other	(439)	90,920
Differences in amounts for the purposes of E.ON SE (formerly E.ON AG) consolidated financial statements	**488,333**	**(5,018,167)**

Reconciliation of revenue from external customers for all 5 power plants to total revenue:

	Year ended 31 December 2014	Year ended 31 December 2013
External revenue of 5 power plants	76,466,225	77,761,007
Other segments	1,226,909	1,017,853
Other adjustments	-	1,644
Total	**77,693,134**	**78,780,504**

The Group's revenues are analysed by products and services in Note 16.

Revenues from customers representing 10% or more of the total revenues are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
ZAO CFS (see Note 16)	49,635,667	49,878,649
Others (mainly distribution companies, under 10% each)	28,057,467	28,901,855
Total revenues according to the Group`s financial statements	**77,693,134**	**78,780,504**

The Group operates and owns assets on the territory of the Russian Federation.

Note 28. Events subsequent to the balance sheet date

The accident at the branch "Surgut GRES-2"

On 4 January 2015, there was a partial collapse of the roof of the power unit No.4 of Surgutskaya GRES-2 which has a capacity of 800 MW. This collapse resulted in damage to certain equipment and a temporary reduction in production capacity.

A preliminary calculation of the damage incurred amounts to RUB 556,874 thousand, which is calculated as the difference between the costs of repair amounting to RUB 1,145,903 thousand and the compensation from insurance payments amounting to RUB 589,029 thousand.

According to the expectations of the Company's management, the damage will be compensated by the insurance company in accordance with the terms of the insurance contract.

Transaction with E.ON SE

On 5 February 2015, the Group provided a loan to E.ON SE in the amount of RUB 2,150,000 thousand due on 4 August 2015. During the period from 20 January 2015 to 4 August 2015 the interest rate will be 15.24% per annum.