

JSC Inter RAO

Consolidated financial statements

*For the year ended 31 December 2014
with report of independent auditors*

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Independent auditors' report

To the shareholders and the Board of Directors of
Open Joint Stock Company "Inter RAO UES" (JSC "Inter RAO")

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

Management's responsibility for the 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.

Auditors' responsibility

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

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

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

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

Ernst & Young LLC

26 February 2015

Consolidated statement of financial position*(in millions of RUR)*

	Note	31 December 2014	31 December 2013
Assets			
Non-current assets			
Property, plant and equipment	6	298,625	285,789
Intangible assets	7	12,514	9,783
Investments in associates and joint ventures	8	34,407	28,625
Deferred tax assets	9	2,236	3,389
Available-for-sale financial assets	10	7,260	9,149
Other non-current assets	11	10,094	6,100
Total non-current assets		365,136	342,835
Current assets			
Inventories	12	14,903	13,221
Accounts receivable and prepayments	13	81,703	70,198
Income tax prepaid		946	1,095
Cash and cash equivalents	14	75,599	39,882
Other current assets	16	9,154	3,055
		182,305	127,451
Assets classified as held-for-sale	15	38,057	42,280
Total current assets		220,362	169,731
Total assets		585,498	512,566
Equity and liabilities			
Equity			
Share capital	17	293,340	293,340
Treasury shares	17	(56,229)	(41,363)
Share premium		69,312	69,312
Hedge reserve	17	38	(64)
Actuarial reserve	17	(34)	(280)
Fair value reserve	17	626	642
Foreign currency translation reserve		8,422	413
Retained earnings		27,426	9,522
Total equity attributable to shareholders of the Company		342,901	331,522
Non-controlling interest		5,348	3,067
Total equity		348,249	334,589
Non-current liabilities			
Loans and borrowings	19	64,185	40,198
Deferred tax liabilities	9	15,034	13,399
Other non-current liabilities	21	11,448	8,569
Total non-current liabilities		90,667	62,166
Current liabilities			
Loans and borrowings	19	42,947	12,553
Accounts payable and accrued liabilities	20	96,836	98,814
Other taxes payable	22	5,872	4,025
Income tax payable		927	419
Total current liabilities		146,582	115,811
Total liabilities		237,249	177,977
Total equity and liabilities		585,498	512,566

Chairman of the Management Board

Kovalchuk B.Yu.

Chief Accountant

Vaynilavichute A.P.

26 February 2015

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out in Notes 1-34.

Consolidated statement of comprehensive income*(in millions of RUR)*

	Note	For the year	
		2014	2013
Revenue	23	741,101	662,321
Other operating income	24	6,829	7,108
Operating expenses, net	25	(727,984)	(687,902)
Operating profit/(loss)		19,946	(18,473)
Finance income	26	5,068	4,014
Finance expenses	26	(12,308)	(15,891)
Share of profit of associates and joint ventures, net	8	4,292	3,252
Profit/(loss) before income tax		16,998	(27,098)
Income tax (expense)/benefit	27	(7,224)	3,068
Profit/(loss) for the period		9,774	(24,030)
Other comprehensive income			
<i>Other comprehensive income that will not be reclassified subsequently to profit or loss</i>			
Actuarial gain, net of tax	17	261	161
<i>Other comprehensive income/(expense) that will be reclassified subsequently to profit or loss when specific conditions are met</i>			
(Loss)/gain on available-for-sale financial assets, net of tax	10, 17	(16)	3,996
Net gain/(loss) on hedge instruments, net of tax	17	92	(167)
Exchange gain on translation to presentation currency		8,520	2,028
Other comprehensive income, net of tax		8,857	6,018
Total comprehensive income/(loss) for the period		18,631	(18,012)
Income/(loss) attributable to:			
Shareholders of the Company		7,837	(23,067)
Non-controlling interest		1,937	(963)
		9,774	(24,030)
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		16,178	(17,308)
Non-controlling interest		2,453	(704)
		18,631	(18,012)
Basic earnings/(loss) per ordinary share for income/(loss) attributable to the shareholders of the Company			
	18	RUR 0.08830	RUR (0.26547)
Diluted earnings/(loss) per ordinary share for income/(loss) attributable to the shareholders of the Company			
	18	RUR 0.08830	RUR (0.28269)

Chairman of the Management Board

Kovalchuk B.Yu.

Chief Accountant

Vaynilavichute A.P.

26 February 2015

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out in Notes 1-34.

Consolidated statement of cash flows*(in millions of RUR)*

	<i>Note</i>	<i>For the year</i>	
		2014	2013
Operating activities			
Profit/(loss) before income tax		16,998	(27,098)
<i>Adjustments to reconcile profit/(loss) before tax to net cash flows from operating activities:</i>			
Depreciation and amortisation	25	21,224	23,733
Provision for impairment of accounts receivable	25	5,467	4,397
Other provisions charge	12, 20, 25	993	3,709
Impairment of available-for-sale financial assets and assets classified as held-for-sale	25	1,356	3,282
Impairment of property, plant and equipment, intangible assets and goodwill	6, 7, 25	5,194	19,704
Share of profit of associates and joint ventures	8	(4,292)	(3,252)
Loss/(income) from electricity derivatives, net	24, 25	104	(223)
Foreign exchange loss, net	26	3,280	541
Interest income	26	(3,754)	(2,748)
Other finance income	26	(353)	(122)
Interest expense	26	5,310	4,034
Other finance expenses	26	1,141	903
Dividend income	26	(961)	(1,144)
(Income)/loss from sale of available-for-sale financial assets and assets classified as held-for-sale	24, 25	(77)	2,397
Shares option plan	32	—	46
Put and call option agreement	26	2,577	10,413
Income on disposal of controlling interest	5, 24	(30)	(129)
Other non-cash operations/items		(19)	(40)
Operating cash flows before working capital adjustments and income tax paid		54,158	38,403
Increase in inventories		(263)	(432)
Increase in accounts receivable and prepayments		(12,526)	(9,273)
Decrease in value added tax recoverable		1,988	357
(Increase)/decrease in other current assets		(383)	197
Increase/(decrease) in accounts payable and accrued liabilities		18,346	(6,676)
Increase/(decrease) in taxes other than income tax payable/prepaid, net		3,740	(1,020)
Other working capital adjustments		70	309
		65,130	21,865
Income tax paid		(4,678)	(2,290)
Net cash flows from operating activities		60,452	19,575

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out in Notes 1-34.

Consolidated statement of cash flows (continued)

(in millions of RUR)

	Note	For the year	
		2014	2013
Investing activities			
Proceeds from disposal of property, plant and equipment		221	174
Purchase of property, plant and equipment and intangible assets		(35,980)	(40,982)
Purchase of controlling interest, net of cash acquired	5	—	(71)
Establishment of subsidiaries	5	—	4
Proceeds from disposal of controlling interest, net of cash disposed		31	—
Proceeds from disposal of associate	8	—	1,115
Proceeds from disposal of available-for-sale financial assets and assets classified as held-for-sale	10, 15	4,846	19,125
Proceeds from repayment of loans issued		963	1,142
Loans issued		(870)	(801)
Bank deposits placed		(20,166)	(4,676)
Bank deposits returned and proceeds from promissory notes repayment		18,274	11,111
Purchase of bonds		(74)	(344)
Dividends received		3,274	1,230
Share increase in the associate		(50)	—
Cash flows from/(used for) other investing activities		443	(117)
Net cash flows used for investing activities		(29,088)	(13,090)
Financing activities			
Proceeds from loans and borrowings		104,922	59,085
Repayment of loans and borrowings		(66,545)	(69,338)
Repayment of finance leases		(725)	(698)
Interest paid		(3,853)	(3,083)
Dividends paid		(226)	(476)
Purchase of non-controlling interest in subsidiaries	5	—	(13)
Disposal of non-controlling interest in subsidiaries	5	100	—
Execution of the call and put option agreement	17	(31,374)	—
Proceeds from treasury shares sold		7	—
Net cash flows from/(used for) financing activities		2,306	(14,523)
Effect of exchange rate fluctuations on cash and cash equivalents		2,047	(129)
Net increase/(decrease) in cash and cash equivalents		35,717	(8,167)
Cash and cash equivalents at the beginning of the period		39,882	48,049
Cash and cash equivalents at the end of the period		75,599	39,882

Chairman of the Management Board

Kovalchuk B.Yu.

Chief Accountant

Vaynilavichute A.P.

26 February 2015

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out in Notes 1-34.

Consolidated statement of changes in equity

(in millions of RUR)

Note	Share capital	Treasury shares	Share premium	Attributable to shareholders of the Company					Total	Non-controlling interest	Total equity
				Foreign currency translation reserve	Fair value reserve	Hedge reserve	Actuarial reserve	Retained earnings			
Balance at 1 January 2013	293,340	(41,363)	69,312	(1,369)	(3,354)	111	(424)	32,278	348,531	4,658	353,189
Total comprehensive (loss)/income for the year ended 31 December 2013	-	-	-	1,794	3,996	(175)	144	(23,067)	(17,308)	(704)	(18,012)
Dividends to shareholders	17	-	-	-	-	-	-	-	-	(486)	(486)
Acquisition of controlling interest in subsidiary	5	-	-	-	-	-	-	-	-	(34)	(34)
Acquisition of non-controlling interest in subsidiaries	5	-	-	(12)	-	-	-	265	253	(371)	(118)
Recognition of non-controlling interest in established subsidiaries	5	-	-	-	-	-	-	-	-	-	-
Shares option plan	32	-	-	-	-	-	-	-	-	4	4
Balance at 31 December 2013	293,340	(41,363)	69,312	413	642	(54)	(280)	9,522	331,522	3,067	334,589
Balance at 1 January 2014	293,340	(41,363)	69,312	413	642	(54)	(280)	9,522	331,522	3,067	334,589
Total comprehensive income/(loss) for the year ended 31 December 2014	-	-	-	8,009	(16)	102	246	7,837	16,178	2,453	18,631
Dividends to shareholders	17	-	-	-	-	-	-	-	-	(274)	(274)
Undrawn dividends returned	17	-	-	-	-	-	-	12	12	27	39
Disposal of non-controlling interest in subsidiaries	5	-	-	-	-	-	-	25	25	75	100
Sale of treasury shares	17	6	-	-	-	-	-	-	6	-	6
Put and call option agreement	17	(14,872)	-	-	-	-	-	10,030	(4,842)	-	(4,842)
Balance at 31 December 2014	293,340	(56,229)	69,312	8,422	626	38	(34)	27,426	342,901	5,348	348,249

Chairman of the Management Board

Kovalchuk B.Yu.

Chief Accountant

26 February 2015

Vaynilavichute A.P.