MANAGEMENT REPORT
OF PJSC ROSSETI
2015

Table of Contents

1. Position of the Company in the Energy Industry

ROSSETTI (RSTI) is the operator of Russia's energy grids and one of the largest electric grid companies in the world. The Company manages more than 90% of the distribution lines and 70% of the transmission lines in Russia.

The strategic goals of ROSSETI are to secure a reliable and uninterrupted, high-quality and affordable power supply with the optimal balance between operating and capital expenditures.

ROSSETI is a strategic company, one of Russia's major infrastructure companies, largely controlled by the government, and acts as the government's agent for the management of the Russian electricity distribution grid sector.

The ROSSETI Group comprises several interregional distribution companies and one transmission company (see Section 10 for more details about subsidiaries). The length of power lines is about 2.3 million kilometers; the transformer capacity of 490,000 substations is over 761 GVA. In 2015, the Company provided electricity transportation services of 720.5 billion kWh.

Due to its geographical location, ROSSETTI interacts with the energy systems of Europe, China, and Central Asia and implements joint projects with them.

The Company's activities contribute to the improvement of the investment climate; through the development of electricity connection procedures, Russia rose to 29th position in the "Getting Electricity" ranking of the *Doing Business* economy rankings in 2015.

2. Operating Overview

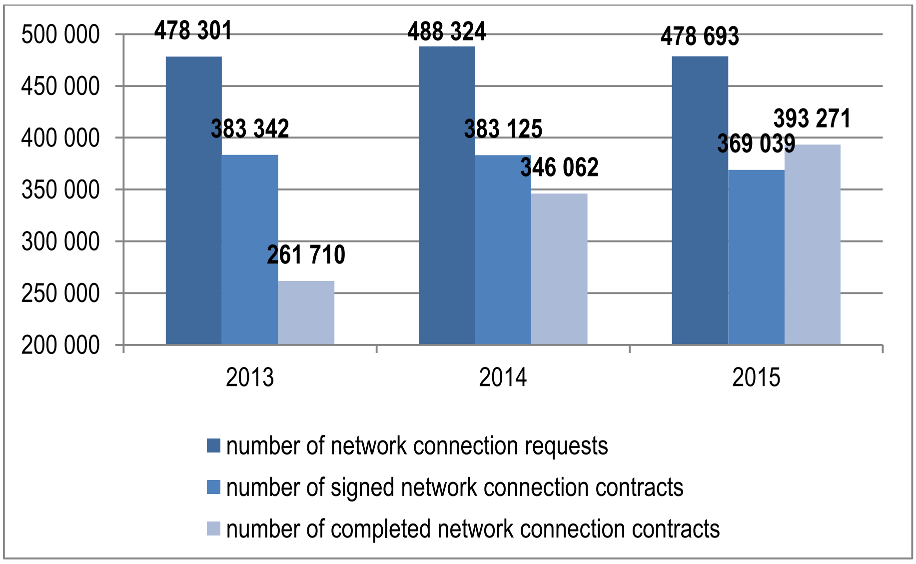
The core business of the ROSSETI Group is electricity transmission and distribution and network connection.

The Group's operating results are detailed in the table below:

Indicator	As of December 31, 2014	As of December 31, 2015	Change, %
Electricity transportation, billion kWh	715	720.5	0.8
Length of power lines, million kilometers	2.29	2.30	0.4
Number of substations, thousand units	480	490	2.1
Transformer capacity, GVA	751	761	1.3
Number of employees,* thousand people	218	216	(0.9)

* Total staff on the payroll of SDCs engaged in the ROSSETI Group's core business

In 2015, the ROSSETI Group signed 363,039 new network connection contracts and completed 393,271 previously signed contracts (a growth of 14% on 2014).



3. Innovation

In 2015, ROSSETI continued the successful execution of the Innovative Development Program for distribution and transmission companies.

The Program is aimed at achieving the strategic goal of the electric grid sector: securing a reliable, high-quality, and affordable energy supply for customers on a long-term basis by building a network infrastructure that is maximally efficient and conforms to international standards, including using advanced innovative approaches, technologies, and solutions.

The goal of the Program is to switch over to a technologically new electric grid with qualitatively new characteristics of reliability, efficiency, affordability, manageability and customer-orientedness in the ROSSETI Group as a whole.
The Innovative Development Program focuses on:

- ensuring the development and introduction of advanced technology and creating the conditions for implementing innovation projects;
- automating the operation of electric grid facilities;
- implementing pilot projects and solutions;
- building up an efficient management system for innovative development and streamlining the business process management system;
- developing and introducing new energy efficiency technology and making use of modern engineering solutions aimed at energy efficiency enhancement;
- developing and improving electricity metering systems;
- employing up-to-date quality control methods for the management system;
- carrying out the Research and Development (R&D) Program;
- minimizing the adverse impact of electric grids on the environment and public health;
- improving the system of mutually beneficial collaboration with innovative small and medium-sized businesses and carrying out projects and R&D activities aimed at the development of innovative technologies, products, and services;
- creating conditions for the development of employees' competencies in innovation, research, and engineering by improving personnel training programs and providing the Company's employees with targeted training, advanced training, retraining, and pre-evaluation training.

Innovation development expenses for electric grid companies totaled over 11.901 billion rubles in 2015.

4. Environmental Protection

The activities of ROSSETI and its SDCs do not involve a significant impact on the environment; however, the Company takes all possible environmental protection measures.

The Company monitors compliance with legal requirements for air protection. In 2015, the Company developed 274 draft standards for maximum permissible air pollutant emissions. Additionally, ROSSETI took an inventory of air pollutants and hazardous emissions.

Year after year, the Company strives to take measures to reduce air emissions. From 2012 to 2015, ROSSETI SDCs reduced air contaminant emissions by 4.9%. ROSSETI's gross air contaminant emissions were 1,463.2 tonnes in 2015.

To reduce toxic vehicle exhaust emissions, several measures were undertaken in 2015:

- Regulation of fuel equipment and internal combustion engine carburetors in the course of the maintenance and repair of motor vehicles equipped with this type of engine;
- Measurements of the toxicity and smokiness of exhaust gases of motor vehicle engines;
- Re-equipment of motor vehicles in order for them to run on LPG.

The Company carries out appropriate measures in accordance with the applicable environmental laws of the Russian Federation. In 2015, the following measures were taken:

- **In the area of waste management:** standards were drafted for waste formation and waste disposal; work was done on the certification of waste of I–IV hazard classes; training was provided for persons admitted to the treatment of waste of I–IV hazard classes.
- **In the area of water protection:** A laboratory quality test of drinking water was conducted; work is underway on metering groundwater withdrawal; metering devices were installed to monitor drinking water withdrawal.

In accordance with Article 16 of Federal Law No. 7-FZ of January 10, 2002, “On Environmental Protection,” the adverse impact on the environment is subject to payment. In 2015, expenses for environmental measures were 432,785.6 thousand rubles. The fee for adverse impact on the environment was 50,388.5 thousand rubles in ROSSETI in 2015.

5. Human Resources

The Personnel and Social Policy pursued by the ROSSETI Group and approved by the Company's Board of Directors in 2014 is aimed at employing sufficient personnel to achieve the current and long-range goals of electric grid companies, including the goals contained in the Strategy for Development of the Electric Grid Sector of the Russian Federation and Long-Term Development Program of ROSSETI.

The key goals of the Personnel and Social Policy which are intended to ensure the attainment of the ROSSETI Group's strategic targets are as follows:

- plan personnel requirements by ensuring the availability of reliable information about the current and forecasted quantitative and qualitative workforce requirements, provided that such information is necessary and sufficient for electric grid companies to accomplish their goals;
- provide electric grid companies in a timely manner with required personnel having necessary qualifications;
- ensure electric grid companies' high personnel efficiency and their workforce productivity growth.

The basic conditions and principles of pursuing the Company's Personnel and Social Policy include:

- introducing unified approaches to human resource management into the ROSSETI Group with due consideration to the regional particularities of their operations;
- creating a uniform personnel environment within the ROSSETI Group;
- creating the conditions for employees' maximal career development;
- motivating employees to work efficiently, including ensuring workforce productivity growth;
- providing employees with equal opportunities and preventing discrimination for any reason;
- complying with the principles of social partnership and responsibility set forth in the Sectoral Wage Rate Agreement in the Electric Power Industry.

The total staff on the payroll of SDCs engaged in the ROSSETI Group's core business was 216 thousand as of December 31, 2015 (218 thousand as of December 31, 2014).

Particular attention is given to young professionals and implementing targeted measures under a unified youth policy aimed at attracting a high-grade group of employees and promoting their professional development, which allows the Company to maintain the average age of the electric grid sector's employees at 42. One-third of the workforce are young professionals under 35.

Personnel by Occupational Category, %

Indicator	As of December 31, 2014	As of December 31, 2015
Executives	16.3%	16.0%
Specialists	30.8%	31.9%
Workers	52.9%	52.1%
TOTAL	**100%**	**100%**

Personnel by Age, %

Indicator	As of December 31, 2014	As of December 31, 2015
Under 30	32.4%	32.5%
35 to 45	25.0%	25.2%
45 to retirement age	34.7%	34.0%
Employees of retirement age	8.0%	8.2%
TOTAL	**100%**	**100%**

6. Review of Financial Results

This review of financial results is based on the ROSSETI Group's audited consolidated financial results for the year ended December 31, 2015 in accordance with IFRS. The consolidated results include the financial performance of subsidiaries and dependent companies.

6.1. Financial Results

Consolidated Key Financial Indicators

The ROSSETI Group's consolidated revenue rose by 0.9% to 766.8 billion rubles in 2015 compared with its revenue earned in 2014 (759.6 billion rubles). The rise in revenue resulted from increased income from electricity distribution due to the indexation of electricity distribution tariffs from July 1, 2015, and due to the effects of Resolution of the Government of the Russian Federation No. 458 of May 11, 2015, and Resolution of the Government of the Russian Federation No. 184 of February 28, 2015, "On Deeming the Owners of Electric Grid Facilities to Be Territorial Grid Organizations" and from other revenue increased by 12.9 billion rubles, largely because of the performance of services under construction project contracts for electric grid facilities and under capital construction contracts.

Consolidated EBITDA totaled 248.9 billion rubles in 2015, or 117.1 billion rubles higher than in the previous year. The EBITDA margin reached 32.5%, which is a change of 15.1 percentage points compared with 2014. The consolidated net profit was 81.6 billion rubles in 2015 compared with a loss of 24.3 billion rubles in the previous year. The increase in this indicator in the reporting period is primarily due to a 14.1% decrease in operating expenses, mainly due to measures implemented under the Program to Improve the Operating Efficiency of the ROSSETI Group, partial reversal of impairment losses in relation to fixed assets with tariff and balancing decisions taken into consideration, and a decrease in depreciation deductions.

Financial and Economic Performance Indicators of the ROSSETI Group

Indicator, million rubles	2014	2015	% vs. 2014
Revenue	**759,608**	**766,812**	**0.9**
Operating expenses	(759,805)	(652,538)	(14.1)
EBITDA	**131,834**	**248,942**	**88.8**
Adjusted **EBITDA**	249,029	273,080	9.7
EBITDA margin	17.4%	32.5%	15.1 pp
Adjusted EBITDA margin	32.8%	35.6%	2.8 pp
Profit/(loss) for the period	**(24,257)**	**81,602**	**-**
Adjusted profit for the period	69,499	100,912	45.2
Adjusted net profit margin	9.1%	13.2%	4.1 pp
Net cash flow from operating activities	160,676	156,688	(2.5)

Revenue

The ROSSETI Group's revenue is determined by changes in electricity consumption and electricity transmission and distribution tariffs. In addition, the change in revenue in 2015 was affected by a decrease in revenue from electricity sales due to the supplier of last resort functions transferred by certain subsidiaries of ROSSETI to winning bidders of the supplier of last resort bidding procedures as determined by the Russian Ministry of Energy. Consolidated revenue in 2015 increased by 0.9% on 2014 to 766.8 billion rubles.

Revenue by Segment, million rubles

Indicator	2014	2015	% vs. 2014
Electricity transmission and distribution	620,022	650,376	4.9
Network connection services	36,473	34,165	(6.3)
Electricity resale	86,516	55,913	(35.4)
Other revenue	12,484	25,354	103.1
Government subsidies	4,113	1,004	(75.6)
TOTAL	**759,608**	**766,812**	**0.9**

Revenue from **electricity distribution** rose by 4.9% on 2014 to 650.4 billion rubles, largely due to the indexation of electricity distribution tariffs from July 1, 2015, due to the effects of Resolution of the Government of the Russian Federation No. 458 of May 11, 2015, and Resolution of the Government of the Russian Federation No. 184 of February 28, 2015, "On Deeming the Owners of Electric Grid Facilities to Be Territorial Grid Organizations," and due to the changed system of pool-based mutual payments.

The Group's revenue from **electricity and capacity sales** decreased by 35.4% compared with 2014 to 55.9 billion rubles. The decrease was due the supplier of last resort functions transferred by certain subsidiaries of ROSSETI to winning bidders of the supplier of last resort bidding procedures as determined by the Russian Ministry of Energy.

The rise of 12.9 billion rubles in other revenue was mainly due to higher revenue from the performance of services under construction project contracts for electric grid facilities.

Revenue by Reportable Segment

The Group has identified 14 reportable segments. which are the Group's strategic business units. The strategic business units provide electricity transmission and distribution and network connection services in 78 constituent entities of the Russian Federation.

The following companies account for a significant share in the Group's consolidated revenue:

MOESK, 17.3%

IDGC of Centre, 10.5%

IDGC of Center and Volga Region, 9.0%

Operating Expenses

Operating expenses went down by 14.1% in 2015 compared with 2014 to 652.5 billion rubles. The decrease in operating expenses in 2015 was primarily caused by measures implemented under the Program to Improve the Operating Efficiency of the ROSSETI Group, the absence of significant impairment of fixed assets, partial reversal of impairment losses with tariff and balancing decisions taken into consideration, and a decrease in depreciation deductions.

Operating Expenses by Cost Item, million rubles

Indicator	2014	2015	% vs. 2014
Employee benefits	155,155	162,911	5.0
Depreciation and amortization	125,910	100,529	(20.2)
Impairment/(reversal of impairment) of fixed assets	81,690	(5,090)	-
Tangible costs (including electricity)	167,607	162,558	(3.0)
Production work and services	144,384	141,668	(1.9)
Impairment of receivables	18,872	28,778	52.4
Taxes and levies except profit tax	14,738	17,637	19.7
Reserves	12,043	3,902	(67.6)
Other	39,406	39,645	0.6
TOTAL	**759,805**	**652,538**	**(14.1)**

Employee benefits increased by 7.8 billion rubles, or 5.0% compared with 2014, which is considerably lower than the inflation rate. The increase was due to the indexation of production personnel pay as required under the Sectoral Wage Rate Agreement. Depreciation deductions went down by 25.4 billion rubles, or 20.2% compared with 2014, largely because of upward revision of the useful life of certain assets included in the Power Lines group. The decrease of 5.0 billion rubles, or 3.0% compared with 2014, in tangible costs was due to lower purchase expenses related to electricity for sale in connection with the supplier of last resort functions transferred by certain subsidiaries of ROSSETI, which, among other things, offset higher expenses related to electricity purchases for compensation for losses due to the increased cost of electricity purchases for compensation for losses.

EBITDA

A reduction in operating expenses and a rise in consolidated revenue allowed the Group to improve EBITDA by 88.8% compared with 2014 to 248.9 billion rubles. The principal factors in the growth were measures implemented under the Program to Improve the Operating Efficiency of the ROSSETI Group and the reversal of impairment losses in relation to fixed assets with tariff and balancing decisions taken into consideration.

The EBITDA margin rose from 17.4% in 2014 to 32.5% in the reporting period.

EBITDA Analysis, million rubles

Indicator	2014	2015	% vs. 2014
Profit/(loss) for the period	**(24,257)**	**81,602**	**-**
Depreciation and amortization	125,910	100,529	(20.2)
Interest paid under financial obligations with amortized cost	23,804	34,607	45.4
Interest paid under finance lease obligations	169	94	(44.4)
Expense tax income	6,208	32,110	417.2
EBITDA	**131,834**	**248,942**	**88.8**
EBITDA margin	17.4%	32.5%	15.41pp

Cash Flows

Free cash flow decreased by 6,145 million rubles on 2014, largely due to the decrease in cash flows from operating activities at the result of increase of unpaid percent for loans.

Cash Flows, million rubles

Indicator	2014	2015	% vs. 2014
Net cash flows from operating activities before working capital changes, tax, and interest	235,593	242,840	3.1
Net cash flows from operating activities	160,676	156,688	(2.5)
Net cash flows from investing activities	(166,290)	(174,519)	4.9
Net cash flows from financing activities	26,273	32,345	23.1
Free cash flow	20,659	14,514	(29.7)

Assets

The book value of the ROSSETI Group’s assets as at December 31, 2015, stood at 2,145.8 billion rubles, or 8.1% higher than in 2014.

Non-current assets increased by 6.8% to 1,811.2 billion rubles. Changes in increased non-current assets were caused by a rise in the value of fixed assets due to the commissioning of capital assets under the capital investment program.

The value of other long-term investments and financial assets increased by 9.0 billion rubles, largely due to an increase in the value of financial assets because of a rise in the fair value of Inter RAO shares.

Long-term receivables went up by 9.6 billion rubles in 2015 due to activated network connection services provided to generation facilities with payment in long-term installments.

The structure of non-current assets changed insignificantly in 2015.

Structure of Non-Current Assets, million rubles

Indicator	2014	2015	% vs. 2014
Fixed assets	1,643,586	1,734,044	5.5
Intangible assets	14,300	18,532	29.6
Investments in associates and joint ventures	1,627	1,489	(8.5)
Nin-current receivables	6,971	16,572	137.7
Other investments and financial assets	22,952	31,928	39.1
Deferred tax assets	7,117	8,579	20.5
TOTAL NON-CURRENT ASSETS	**1,696,553**	**1,811,144**	**6.8**

Current assets increased by 16.4% to 334.6 billion rubles in 2015. Changes in the value of current assets were caused by increased inventories due to certain subsidiaries’ switching over to using in-house resources for repair operations, a rise in other investments and financial assets because of cash placed on deposit in banks, increased trade and other receivables due to a rise in prepayment under construction contracts, and increased cash due to the proceeds from federal loan bonds sold by LENENERGO.

Structure of Current Assets, million rubles

Indicator	2014	2015	% vs. 2014
Inventories	26,630	33,921	27.4
Other investments and financial assets	17,908	36,777	105.4
Current income tax prepayments	4,636	4,201	(9.4)
Trade and other receivables	155,776	162,624	4.4
Cash and cash equivalents	82,576	97,090	17.6
TOTAL CURRENT ASSETS	**287,526**	**334,613**	**16.4**

Equity and Liabilities

The Group's equity increased by 130.1 million rubles in 2015, or 12.5% on 2014, to 1,168.9 billion rubles.

The key factor contributing to changes in the Group's equity was the decision to increase the share capital of ROSSETI by placing additional uncertificated registered ordinary shares, resulting in establishing a reserve for issue of shares in the amount of 33.5 billion rubles.

In addition, retained earnings went up by 64.6 billion rubles in 2015, or 16.8% on 2014, due to the ROSSETI Group's profit earned in 2015.

Structure of Equity, million rubles

Indicator	2014	2015	% vs. 2014
Share capital	163,154	163,154	0.0
Share premium	212,978	212,978	0.0
Treasury shares	(2,725)	(2,713)	(0.4)
Reserve for issue of shares	0	33,473	-
Other reserves	(3,981)	(2,100)	(47.2)
Retained earnings (uncovered loss)	383,554	448,120	16.8
Total equity attributable to equity holders of the Company	**752,980**	**852,912**	**13.3**
Non-controlling interest	285,824	315,983	10.6
TOTAL EQUITY	**1,038,804**	**1,168,895**	**12.5**

The structure of liabilities changed insignificantly in 2015, with loans and borrowings representing a substantial share in non-current liabilities (80.6%) and payables accounting for 67.0% of total current liabilities.

Non-current liabilities in the reporting period rose by 14.0 billion rubles, or 2.5%, and reached 577.2 billion rubles at the end of 2015. The Group's long-term loans and borrowings decreased by 20.0 billion rubles, or 4.1%. Changes in long-term loans and borrowings were due to long-term loans reclassified as short-term loans with respect to repayment dates, which was substantially offset by the issue of long-term bonds.

Structure of Non-Current Liabilities, million rubles

Indicator	2014	2015	% vs. 2014
Loans and borrowings	485,409	465,439	(4.1)
Trade and other payables	17,851	22,075	23.7
Employee benefits	25,512	29,473	15.5
Deferred tax liabilities	34,389	60,155	74.9
TOTAL NON-CURRENT LIABILITIES	**563,161**	**577,142**	**2.5**

The rise of 17.6 billion rubles, or 4.6%, in current liabilities in 2015 was substantially due to short-term loans and borrowings increased by reclassifying some long-term loans as short-term loans with respect to repayment dates.

Structure of Current Liabilities, million rubles

Indicator	2014	2015	% vs. 2014
Loans and borrowings (short-term)	93,227	118,832	27.5
Trade and other payables (short-term)	268,469	267,972	(0.2)
Provisions	18,871	11,421	(39.5)
Current tax liabilities	1,547	1,495	(3.4)
TOTAL CURRENT LIABILITIES	**382,114**	**399,720**	**4.6**

6.2. Financial Stability and Loan Portfolio

As of December 31, 2015, the Company's consolidated net debt decreased by 1.8% on 2014 to 87.2 billion rubles. The decrease in net debt was due to a 17.6% increase in cash and cash equivalents.

Analysis of Gross Debt

Indicator	December 31, 2014	December 31, 2015	vs. December 31, 2014
Long-term debt	485,409	465,439	(4.1)%
Short-term debt	93,227	118,832	27.5%
Gross debt	**578,636**	**584,271**	1.0%
Long-term debt, %	84%	80%	(4 pp)
Cash and cash equivalents	**82,576**	**97,090**	**17.6%**
Net debt	**496,060**	**487,181**	**(1.8)**
EBITDA	**131,834**	**248,942**	**88.8%**
Gross debt/EBITDA	*4.4*	*2.3*	*(2.1)*
Net debt/EBITDA	*3.8*	*2.0*	*(1.8)*

The Group's increased EBITDA and decreased net debt improved the Net debt/EBITDA indicator. As of the end of the reporting period, this indicator was 2.0.

6.3 Credit Ratings

The Company is active in cooperating with leading international rating agencies: Moody's, Standard & Poor's, and Fitch Ratings. In accordance with the methodologies of the international rating agencies, ROSSETI and its SDCs qualify as government-linked companies. Consequently, the credit ratings of the Group's entities are closely tied to the sovereign rating of the Russian Federation.

Against a background of instable foreign policy, sanctions against some Russian entities and individuals, and the deteriorating economic situation, the international rating agencies in 2015 revised the sovereign rating for the Russian Federation and the credit ratings for Russia's largest companies, including the ROSSETI Group's entities.

> ROSSETI's international credit rating from Standard & Poor's corresponds to the sovereign rating

After Standard & Poor's downgraded the Russian Federation's rating to BB+, the credit ratings of ROSSETI and FGC UES, and MOESK and IDGC of Centre, were also downgraded to BB+ and BB- respectively in early 2015.

> No rating action was associated with the ROSSETI Group's own creditworthiness in 2015, which evidences the Group's stable financial condition

During 2015, Moody's downgraded the Russian Federation's sovereign rating twice: first, to Baa3; second, to Ba1.

The Russian Federation's sovereign rating downgraded by Moody's resulted in downgrading the credit ratings of Russian major companies, including downgrading ROSSETI's credit rating to Ba2 and FGC UES's credit rating to Ba1. The credit ratings of LENENERGO, MOESK, IDGC of Volga, IDGC of Urals, and IDGC of Center and Volga Region remained at Ba2 in 2015.

Fitch downgraded by one notch the credit rating of FGC UES to BBB-, while MOESK's rating remained at BB+.

> Receiving credit ratings from international credit rating agencies enables the Company and its subsidiaries to be increasingly attractive to investors and pursue an effective borrowing policy in public capital markets

ROSSETI Group Credit Ratings as of December 31, 2015

Company	Current Credit Rating			Initial Assignment Date		
	Moody's	S&P	Fitch			
ROSSETI	Ba2	BB+	_	**July 2010/March 2014**		
FGC UES	Ba1	BB+	BBB-	February 2006	June 2004	October 2013
MOESK	Ba2	BB-	BB+	October 2007	January 2012	August 2013
IDGC of Centre	_	BB-	_	November 2009		
IDGC of Volga	Ba2	_	_	October 2012		
IDGC of Center and Volga Region	Ba2	_	_	October 2012		
IDGC of Urals	Ba2	_	_	October 2012		
LENENERGO	Ba2	_	_	November 2009		

6.4. Key Financial Ratios

Indicator	2013	2014	2015
EBITDA margin	-	17.4%	32.5%
Operating expenses/revenue	120.7%	100.0%	85.1%
Net profit margin	-	-	10.6%
Net debt/EBITDA	-	3.8	2.0
Debt/EBITDA	-	4.4	2.3
Current ratio	0.93	0.75	0.84
Financial leverage	0.83	0.91	0.84
Long-term loans/gross debt	89%	84%	80%

7. ROSSETI Shareholding Structure and Share Market

Information on the Company's Securities

Shares

The share capital of ROSSETI is one hundred sixty-three billion, one hundred fifty-four million, two thousand, six hundred ninety-four (163,154,002,694) rubles and consists of one hundred sixty-three billion, one hundred fifty-four million, two thousand, six hundred ninety-four (163,154,002,694) shares, each with a par value of 1 ruble, including one hundred sixty-one billion, seventy-eight million, eight hundred fifty-three thousand, three hundred ten (161,078,853,310) ordinary shares and two billion, seventy-five million, one hundred forty-nine, three hundred eighty-four (2,075,149,384) preference shares.

Quantity of Federally Owned Shares in ROSSETI (as for registered share capital)

As of December 31, 2015	Quantity of Shares		Percentage of Share Capital, %
	Ordinary Shares	Preference Shares	
Federal Agency for State Property Management	139,037,599,663	145,523,224	85.31

Principal Shareholders with a Share of More than 2% as of December 31, 2015

Shareholders	Percentage of Share Capital, %
The Russian Federation represented by the Federal Agency for State Property Management	85.31
National Settlement Depository (nominee shareholder)	9.53
Depository and Corporate Technologies (nominee shareholder)	3.78
TOTAL:	**98.62**

The Company's shares are currently included in the following stock market indices:

Index	Weight, %	Index Currency
MICEX	OS 0.13	RUB
Micex Power	OS 7.96	RUB
Micex Power	PS 0.88	RUB
MICEX Start Cap Index	OS 3.8	RUB
MICEX Start Cap Index	PS 0.93	RUB
Second Tier	PS 0.81	RUB
RTS	OS 0.13	USD

Key Indicators of Trading in the Company's Shares for 2014 and 2015

Indicator	Unit	2014	2015	Change, %
Trading volume				
Ordinary shares	billion RUB	52.08	18.48	-64.52%
Preference shares		0.93	0.70	-25.05%
Ordinary shares	billion shares	94.18	36,74	-60,99%
Preference shares		1.74	1.28	-26.31%
Number of deals				
Ordinary shares	million shares	1.16	0.77	-33.85%
Preference shares		0.06	0.03	-46.61%
Maximum price				
Ordinary shares	RUB	0.83	0.67	-20.05%
Preference shares		0.80	0.65	-19.07%
Minimum price				
Ordinary shares	RUB	0.29	0.40	38.03%
Preference shares		0.41	0.45	11.58%
Weighted average price at year end				
Ordinary shares	RUB	0.42	0.46	9.07%
Preference shares		0.58	0.60	2.75%
Capitalization at year end	**million RUB**	**69,408.523**	**91,084.916***	31.23%

* Including additionally issued outstanding shares

8. Corporate Governance

ROSSETI views governance as an integral and inseparable part of its sustainability strategy and as a means of improving the efficiency of its operations, building up its reputation, and making the Company more attractive to investors.

ROSSETI's governance system is in accordance with the applicable Russian laws, the Articles of Association and internal documents of the Company, and the Company's obligations associated with the trading of securities in global stock markets. ROSSETI also applies global best practices in governance.

Principal Goals and Objectives of ROSSETI's Governance

• ensure the unconditional, timely, and complete exercise of the legitimate rights and interests of all shareholders of the Company

• develop efficient interaction between the Company and its SDCs to develop and improve the reliability of the electric grid sector and increase the market value of ROSSETI and its subsidiaries and dependent companies

• enhance the transparency of decisions made by management bodies, maximize the disclosure of information about the Company's activities, and improve the governance system of ROSSETI

• constantly improve the mechanisms for relations between the Company and shareholders, securities holders, and potential investors with due consideration to the Company's obligations to third parties

• improve the existing forms and methods and develop new forms and methods for maintaining relations with shareholders to facilitate the exercise of their rights, and develop advanced means of communication for shareholder relations

ROSSETI guarantees that its shareholders will exercise all of their rights provided by Russian laws, the Articles of Association, and internal documents of the Company in relation to the placement and trading of shares and other securities of the Company and other obligations assumed by the Company in accordance with international best practices.

The Strategy for Development of the Electric Grid Sector of the Russian Federation approved by Ordinance of the Government of the Russian Federation No. 511-r of April 3, 2013, specifies that ROSSETI performs the following principal functions: strategic functions, coordinating and controlling functions, accomplishment of institutional goals faced by the entire industry, and participation in the consolidation of territorial grid organizations with the aim of ensuring the necessary reliability and quality of the power supply for customers.

The members of the Board of Directors, served until June 30, 2015.

Name	Year of Birth	Position[1]
Sergey Ivanovich Shmatko	1966	Chairman of the Board of Directors of ROSSETI; Special Representative of the President of the Russian Federation on International Cooperation in the Electric Power Industry
Boris Ilyich Ayuyev	1957	Chairman of the Management Board, SO UPS
Oleg Gennadyevich Barkin	1975	Deputy Chairman of the Board, NP Market Council

[1] The positions specified are as of the time of election.

Oleg Mikhailovich Budargin	1960	Director General, ROSSETI
Anatoly Fyodorovich Dyakov	1936	President and Chairman of the Scientific and Technical Board, NP STC UPS
Andrey Yurievich Ivanov	1975	Deputy Minister of Finance of the Russian Federation
Alexander Sergeyevich Kalinin	1966	First Vice President for Energy, Infrastructure and Cluster Policy, OPORA RUSSIA All-Russian Public Organization of Small and Medium Business
Vyacheslav Mikhailovich Kravchenko	1967	Deputy Minister of Energy of the Russian Federation
Alexei Aleksandrovich Makarov	1937	Member of the Presidium, Russian Academy of Sciences
Sergei Nikolaevich Mironosetsky	1965	Member of the Board of Directors, Siberian Generation Company
Denis Stanislavovich Morozov	1973	Representative of the Russian Federation on the Board of Directors of the European Bank for Reconstruction and Development
Andrey Yevgenyevich Murov	1970	Chairman of the Management Board, FGC UES
Seppo Juha Remes	1955	Director General, Kiuru
Pavel Olegovich Shatsky	1972	First Deputy Director General, Gazprom Energoholding
Andrey Nikolayevich Shishkin	1959	Vice President, Rosneft

On June 30, 2015, the Annual General Meeting of Shareholders of the Company elected the following members of the Board of Directors of ROSSETI

Name	Year of Birth	Position[2]
Alexander Valentinovich Novak	1971	Chairman of the Board of Directors of ROSSETI; Minister of Energy of the Russian Federation

[2] The positions specified are as of the time of election.

Stanislav Olegovich Ashirov	1973	Director General, Mezhregionenergosbyt
Boris Ilyich Ayuyev	1957	Chairman of the Management Board, SO UPS
Oleg Gennadyevich Barkin	1975	Deputy Chairman of the Board, NP Market Council
Vasily Mikhailovich Belov	1981	Senior Vice-President for Innovations, Non-Profit Organization the Fund for Development of the Center for Elaboration and Commercialization of New Technologies
Oleg Mikhailovich Budargin	1960	Director General, ROSSETI
Anatoly Fyodorovich Dyakov[3]	1936	President and Chairman of the Scientific and Technical Board, Scientific and Technical Council of Unified Energy System
Andrey Yurievich Ivanov	1975	Deputy Minister of Finance of the Russian Federation
Alexander Sergeyevich Kalinin	1966	President, OPORA RUSSIA All-Russian Public Organization of Small and Medium Business
Alexei Aleksandrovich Makarov	1937	Member of the Presidium, Russian Academy of Sciences
Denis Stanislavovich Morozov	1973	Representative of the Russian Federation on the Board of Directors of the European Bank for Reconstruction and Development
Andrey Yevgenyevich Murov	1970	Chairman of the Management Board, FGC UES
Oleg Romanovich Fyodorov	1968	Member of the Supervisory Board, ALROSA
Andrey Nikolayevich Shishkin	1959	Vice President for Energy and Localization, Rosneft
Sergey Ivanovich Shmatko	1966	Special Representative of the President of the Russian Federation on International Cooperation in the Electric Power Industry

Remuneration for Members of the Board of Directors and Management Board

The amounts and payment procedure of remuneration and compensation for members of the Board of Directors of ROSSETI are defined by the Regulations for Remuneration and Compensation for Members of the Internal Audit Commission of ROSSETI (restated version) approved by the Annual General Meeting of

[3] Member of the Board of Directors of ROSSETI A. F. Dyakov died on August 12, 2015.

Shareholders of the Company on June 30, 2015.

The members of the Board of Directors on the staff of the Company are paid salaries in accordance with the payroll plan and can be eligible for bonuses, commission fees, benefits and/or reimbursement for expenses and other perquisites. Information on such payments to the members of the Company's Board of Directors is specified as part of remuneration paid to the collegial executive body.

The pay system for ROSSETI's senior managers is governed by the Regulations for Financial Incentives for Senior Managers approved by the Board of Directors of the Company and includes the fixed and variable parts of pay.

The variable part of remuneration for this category of managers is paid on the basis of performance evaluation for a quarter and year and depends on attained key performance indicators, the composition, calculation technique, and target values of which are approved by the Board of Directors of ROSSETI according to the goals of the Strategy for Development of the Electric Grid Sector of the Russian Federation and the Long-Term Development Program of the Company.

Type of Remuneration	Amount of Remuneration, million rubles
Remuneration for participation in the work of the management body/financial and economic control body	6.38
Salary	119.24
Bonuses	181.67
Commission fees	0
Benefits	0
Other remuneration	5.13
TOTAL	**312.42**

Information on the stakes holding

Member of the Board of Directors holding a stake in the issuer's authorized capital on or before June 30, 2015

- Boris Ilyich Ayuyev

Member of the Board of Directors
Position as of the time of the member's election: Chairman of the Management Board, SO UPS

Stake held by the individual in the authorized capital of the issuer, %: 0.005501
Percentage of ordinary shares held by the individual in the issuer, %: 0.005572

- Anatoly Fyodorovich Dyakov

Member of the Board of Directors
Position as of the time of the member's election: President and Chairman of the Scientific and Technical Board, Scientific and Technical Council of Unified Energy System

Stake held by the individual in the authorized capital of the issuer, %: 0.0031
Percentage of ordinary shares held by the individual in the issuer, %: 0.00314

- Pavel Olegovich Shatsky

Member of the Board of Directors
Position indicated as of the time of election: First Deputy Director General of Gazprom Energoholding

Stake held by the individual in the authorized capital of the issuer, %: 0.000007
Percentage of ordinary shares held by the individual in the issuer, %: 0.000001

Members of the Board of Directors, elected after 30.06.15, holding a stake in authorized capital of the Company

- Boris Ilyich Ayuyev

Member of the Board of Directors
Position indicated as of the time of election: Chairman of the Management Board of System Operator of the United Power System (SO UPS)

Stake held by the individual in the authorized capital of the issuer, %: 0.005501
Percentage of ordinary shares held by the individual in the issuer, %: 0.005572

- Anatoly Fyodorovich Dyakov[4]

Member of the Board of Directors
Position indicated as of the time of election: President of Scientific and Technical Council of Unified Energy System Non-profit Partnership

Stake held by the individual in the authorized capital of the issuer, %: 0.0031
Percentage of ordinary shares held by the individual in the issuer, %: 0.00314

Liability Insurance

ROSSETI takes out liability insurance for directors and officers (including members of the Board of Directors, members of the Management Board, and independent directors) to indemnify the Company's shareholders, creditors, and other persons for their damage (losses) caused by the mistakes and unintentional acts (omission to act) on the part of such directors and officers while they perform their managerial activities.

The insurance premium under the insurance contract is 4.3 million rubles, while the total insured amount (aggregate limit of liability) is 100 million US dollars.

The liability insurance contract provides directors and officers with coverage consistent with international insurance standards as to insured risks and indemnity limits.

[4] Member of the Board of Directors of ROSSETI A. F. Dyakov died on August 12, 2015.

Internal Control System

Organizing reliable internal control and building up a sound system of risk management is one of the most important conditions for ensuring the stable and efficient operation of the Company and protecting the interests of its shareholders and investors.

The ROSSETI Group set up and develops the internal control system to achieve the following goals:

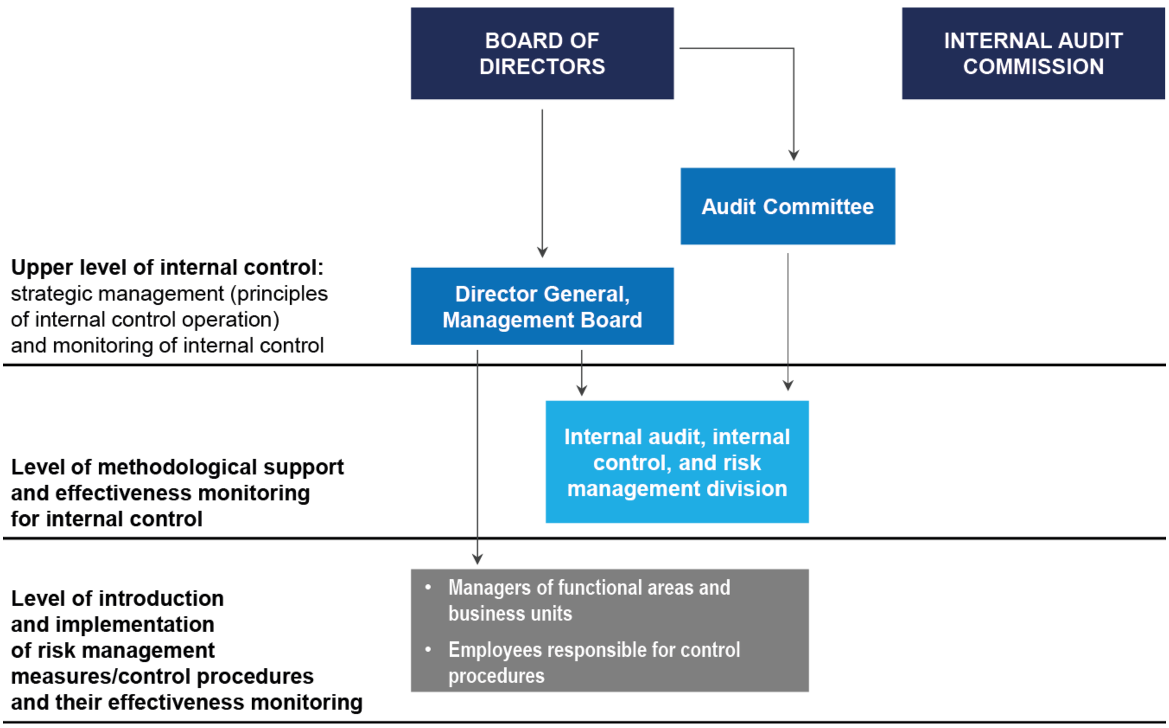
- ensure efficiency and productivity of organizing the Company's and its SDCs' activities; safeguard assets;
- ensure compliance with the applicable legal requirements and local regulatory documents, including in economic events and business accounting; ensure the reliability and timeliness of accounting (financial) and other reporting.

The effectiveness of the internal control system relies on the interrelationship of the following constituent management processes:

- Organization of effective internal control over business processes;
- Risk management;
- Internal audit and independent evaluation;
- Auditorial control.

In 2015, the Company updated the Internal Control Policy of ROSSETI and the Model Internal Control Policy for ROSSETI SDCs in order to bring them into line with other internal documents formulated pursuant to instructions of the President of the Russian Federation and directives of the Government of the Russian Federation and ensure compliance with the provisions of the Corporate Governance Code recommended by the Bank of Russia.

The ROSSETI Group takes a unified approach to organizing its internal control system:



The roles of participants in the internal control system are delineated, depending on their involvement in the relevant stages of the internal control process at the relevant levels of management.

Participant in the Internal Control System	Principal Functions in the Internal Control System	Principal Internal Documents Specifying the Functions
Internal Audit Commission	• Exercise control of financial and economic activities • Prepare proposals/recommendations to improve the internal control system • Make an independent assessment of the reliability of information contained in the annual report and annual accounting statements	Articles of Association, Internal Control Policy, Regulations for the Internal Audit Commission
Board of Directors	• Approve internal documents defining the organization and the development and improvement strategy of the internal control system • Approve the Internal Control Policy containing the principles of and approaches to the organization of the internal control system • Control the activities of executive bodies in the principal (high-priority) areas • Review the results of the evaluation of internal control system effectiveness on an annual basis	Articles of Association, Internal Control Policy
Audit Committee of the Board of Directors	• Carry out a preliminary review of internal documents defining the organization and the development and improvement strategy of the internal control system, the Internal Control Policy, and subsequent amendments thereto • Carry out a preliminary review of the results of the evaluation of internal control system effectiveness based on the internal auditor's report on internal control system effectiveness and based on reports on the findings of external independent evaluation and prepare proposals and recommendations to improve the internal control system • Oversee the reliability and effectiveness of the internal control system as related to supervising the reliability of accounting (financial) statements, selecting the external auditor and conducting the external audit, and ensuring compliance with regulatory and legal requirements and as related to analyzing and assessing the implementation of the Internal Control Policy	Internal Control Policy, Regulations for the Audit Committee
Other committees of the Board of Directors	Oversee the attainment of prescribed financial and operational indicators, compliance with the applicable laws, compliance with the rules and procedures set forth in local regulatory documents, and the reliability	Internal Control Policy, committee regulations

	and timeliness of reporting within their competence specified by the Board of Directors	
Executive bodies	Ensure the effective internal control system is created and kept in working order, including: • defining the areas and plans of developing and improving the internal control system • approving regulatory and methodological documents relating to the organization and functioning of the internal control system within their competence • ensuring the implementation of action plans • preparing and submitting for consideration by the Board of Directors reports on financial and economic activities and on the organization, functioning, and effectiveness of the risk management and internal control systems	Articles of Association, Internal Control Policy
Divisions	• Implement the principles of the internal control system • Organize and regulate the building of effective processes (areas of activities), including using identified risks to develop and implement new control procedures or change existing control procedures • Carry out control procedures • Perform self-assessment in relation to supervised processes (areas of activities) and initiate the improvement of control procedures • Correct discovered deficiencies in control procedures and processes (areas of activities)	Internal Control Policy, division regulations
Internal control division	• Develop basic and methodological documents and ensure their implementation in relation to building up and improving the internal control system • Assist management in building the control environment and formulate recommendations for the description of control procedures and their introduction into processes (areas of activities) and for the assignment of responsibilities to officers • Coordinate measures to maintain and monitor the intended state of the internal control system • Prepare information on the state of the internal control system for stakeholders	Internal Control Policy, regulations for the internal control division
Internal audit division	• Prepare recommendations based on the internal audit results to improve control procedures, specific components (elements) of internal control and the internal control system • Make the internal evaluation of internal control system effectiveness and provide recommendations to improve the efficiency and effectiveness of the internal control system	Internal Control Policy, Internal Audit Policy, regulations for the internal audit division

The internal independent evaluation of internal control system effectiveness is made by the internal audit division on an annual basis.

The external independent evaluation of internal control system effectiveness is made by external independent consultants at least once every three years, depending on changes in the organizational activities and on the general level of the internal control system's development, reliability, and effectiveness.

The Articles of Association of the Company and SDCs were amended in 2015 to make the Board of Directors responsible for the annual review of the evaluation of internal control system effectiveness.

To evaluate the state (maturity level) of the internal control system in accordance with the COSO concept, the Company uses the criteria established by the Strategy: six development (maturity) levels of the risk management and internal control system from "Zero" to "High."

The Company carried out the following key measures in 2015 to improve the internal control and risk management system:

- The ROSSETI Group implements the project to improve the internal control system in business accounting, tax accounting, and the preparation of accounting (financial) statements; under the project, the Company and SDCs analyze the effectiveness of processes that have an effect on records and accounts, construct matrixes for controls, and develop measures to optimize processes.
- ROSSETI's permanent collegial body, the Internal Control Commission (ICC), was established and operates to improve the effectiveness of managerial decisions and measures to correct discovered deficiencies and nonconformities, ensure the objectivity of assessing the results of control measures and related administrative response measures, and review the results of analyzing and improving the internal control system in the ROSSETI Group's processes (areas of activities). ICC meetings deal with information on the results of completed control procedures, audits, inspections, and other examinations of the Group. According to the results of ICC meetings, ROSSETI's and SDCs' management is provided with recommendations to improve the internal control system.
- Standard documents were formulated/updated relating to personnel recruitment, evaluation, rotation, promotion, and motivation, and their introduction into SDCs was organized.
- A common information space (knowledge base) containing internal regulatory documents and other key information was created in the Company's intranet.
- With a view to standardizing the approaches to the identification, description, and assessment of risks (nonconformities and deficiencies) discovered by internal audits and inspections of the ROSSETI Group, the Company developed and brought into use the Uniform Classifier of Nonconformities and Deficiencies and the related operating instructions with respect to the basic processes carried out by SDCs.
- In order to provide the audit committees and boards of directors of the ROSSETI Group's SDCs with complete and objective information about SDCs' state of affairs and about the effectiveness of internal audit and have reasonable assurance that the identification of deficiencies results in developing and implementing adequate response measures aimed at protecting the interests of ROSSETI SDCs and improving their operating efficiency, the Company developed and implemented into SDCs the format of a quarterly report submitted by internal audit and control divisions of ROSSETI's subsidiaries and the related report preparation instructions.
- The internal audit function of ROSSETI was made a separate division functionally subordinate to the Company's Board of Directors and administratively subordinate to the Company's Director General.
- With the aim of developing and improving the regulatory framework for risk management in the ROSSETI Group:

– to comply with new recommendations issued by regulators, the Company updated the Risk Management Policy of ROSSETI and the Model Risk Management Policy for ROSSETI SDCs;

– work continued on identifying SDCs' typical risks: in addition to the ROSSETI Group's model register of operational risks of basic business processes approved in 2014, ROSSETI developed and introduced into its subsidiaries in 2015 the ROSSETI SDCs' model register of operational risks of other business processes;

– the model instruction on the planning and implementation of risk management measures and the model form of the risk management action plan were developed and introduced into SDCs;

– the Company developed and introduced into SDCs, the Operational Risk Identification Summary and the related application and completion instructions, the technique for assessing operational risks, and the recommended guidelines for using these documents.

In order to ensure optimal corporate planning enabling the Company to achieve its strategic and operational goals and maintain its financial stability, risk information was integrated into the ROSSETI Group's business planning system.

9. Risk Management

The Strategy for Developing and Improving the Internal Control System of ROSSETI and Subsidiaries and Dependent Companies of ROSSETI was approved by the Board of Directors of ROSSETI on February 10, 2014.

As stated in the Strategy, ROSSETI's risk management is in accordance with the Internal Control Policy and the Risk Management Policy approved by the Company's Board of Directors and specifying the fundamental principles of the organization, implementation, and control of the Company's preventive control (risk management) processes. Additionally, the model control policies are formulated for ROSSETI SDCs.

ROSSETI's most important risks that materialized to varying degrees in 2015 are as follows:

Financial risks

Risks associated with exchange rate changes

These risks involved are a possible rise in the Company's costs or a possible decrease in its revenues in the event of growth of the Russian ruble foreign exchange rates, including due to the purchase of foreign-made equipment. In order to minimize these risks, ROSSETI took measures to make the Company less financially vulnerable to external threats and enhance import substitution, which made it possible to reduce the impact of these risks on the Company's performance to a certain extent.

Risks associated with interest rate changes

These risks involve a possible rise in SDCs' costs if they need to borrow to finance capital investment programs. In order to mitigate these risks, SDCs took measures to minimize the loan portfolio, including by means of optimizing their operating expenses and capital investment programs and by means of using their own funds to partially repay debts.

Risks associated with inflation impact

These risks are associated with the effect of a rise in the consumer price index on SDCs' interest costs, profitability, and, consequently, the financial condition of the Company and SDCs and their ability to perform obligations. In order to reduce the impact of these risks, ROSSETI took measures to make the Company less vulnerable to external threats.

Risks associated with the possible liability of the issuer for third-party debts, including the issuer's subsidiaries

These risks are associated with the possible liability of the Company for third-party debts. In order to eliminate these risks, the Company took measures to prevent such a situation and maintain SDCs' financial stability.

Industry-specific risks

Since ROSSETI does not perform any direct operating activities and only carries out corporate management of its SDCs, industry-specific risks are primarily associated with the Company's SDCs. Nevertheless, it is necessary to describe the current industry-specific risks.

Risk associated with the decreased volume of electricity distribution services

Russian industrial production growth has slowed down since 2013. The primary reasons are Russia's contracting investment activity and adverse changes in commodities market conditions, including the metals market. Most metallurgical companies stopped or curtailed production. Industrial development was additionally under pressure from the following factors: a low growth rate of workforce productivity, the weakening of the national currency, a deceleration in domestic demand, foreign political pressure, and mutual sanctions.

Other factors affecting demand are the optimization of customers' external electricity supply and decreased electricity consumption from Russia's United Power System as customers make increasingly wide use of in-house generation facilities. In numerous cases, the design of new industrial facilities uses in-house generation as the main power source.

This risk is associated with a reduction in industrial production and the optimization of customers' expenses related to electricity distribution, resulting in decreased electricity consumption. In response to the risk, ROSSETI organized the monitoring of electricity and capacity demand and carried out measures to enhance the reliability of the predicted volume of electricity distribution services for pricing and business planning purposes.

Risk associated with failure to pay for provided electricity distribution services

This risk arises from imperfect in the operational mechanisms of the retail electricity market and from the unavailability of effective mechanisms for encouraging customers to make timely payments for electricity distribution services and also results from macroeconomic factors. In order to minimize the effects of this risk, ROSSETI carries out measures under the Program for Improving the Efficiency of Measures to Reduce Receivables for Electricity Distribution Services approved by the Board of Directors of ROSSETI on February 12, 2014 (Minutes of the Meeting No. 144). As part of the Program, ROSSETI participates in the preparation by the Ministry of Energy of proposals to improve current laws in order to enhance payment discipline in the energy markets and reduce the risk of nonpayment for electricity distribution services provided by the Company.

Tariff regulation risks

The core activities of the Company's SDCs are the provision of electricity distribution and transmission services and network connection services. These activities are subject to regulation by the government, including by means of tariff setting.

The government's tariff regulation policy is based on a reduction in the effect of inflation and provides for a change in grid organizations' regulated tariffs in 2016–2018 for the index of actual inflation with the outstripping growth of prices in the wholesale market, which reduces grid organizations' share in the structure of the final tariff (price) for electricity and may lead to a shortage of the tariff-based sources of financing SDCs' investing and operating activities.

According to the Forecast of the Socioeconomic Development of the Russian Federation for 2016 and the Planning Period of 2017 and 2018 developed by the Ministry of Economic Development, the regulated tariffs for grid organizations will grow as follows: 7.5% from July 1 2015; 7.5–11% from July 1 2016; 7.0% from July 1 2017; and 6.2% from July 1 2018.

In addition, current legislation provides for a reduction in the cross-subsidy rate for the voltage level and prescribes that the Pricing Fundamentals in the Area of Regulated Prices (Tariffs) in the Electric Power Industry set the ceiling value of cross-subsidies at the 2013 level. These conditions without taking into account objective reasons for exceeding the cross-subsidy value, for example, changes in the evolution and structure of electricity consumption, as well as in the absence of regulations ensuring the uniform redistribution of the cross-subsidy burden among all categories of customers, lead to a shortfall in SDCs' minimum regulated revenue.

Therefore, these risks are associated with restrictions imposed by tariff regulators on the tariff growth rate of electricity distribution services and with a possibility that grid companies' expenses are only partially recognized for the formation of minimum regulated revenue. As part of its efforts to reduce these risks, ROSSETI carried out measures jointly with regulators to improve the efficiency of investing and operating activities, aiming to reduce costs and optimally plan the structure of financing.

Risks associated with taking on the supplier of last resort status and functions

These risks arise from the current simplified procedure for depriving retail companies of the supplier of last resort (SOLR) status under regulatory documents issued by the Russian Government. This creates additional risks that such territorial grid organizations may fail to perform their obligations with respect to reliable electricity distribution and are associated with a possibility that ROSSETI SDCs may temporarily take on the SOLR status. In order minimize these risks, ROSSETI takes measures to constantly cooperate with federal and regional governmental authorities, the mass media, infrastructural organizations of the wholesale electricity market, law enforcement agencies, and organizations deprived of the SOLR status in the performance of the SOLR functions and the settlement of debts. ROSSETI also promotes initiatives to streamline the procedure for changing the SOLR, enhance ROSSETI SDCs' competencies in collecting bad debts and participating effectively in bankruptcy procedures against debtors, etc.

Risks associated with the Company's activities

Risk associated with failure to achieve the reliability level set in tariff regulation for electricity distribution services

This risk is involved in the possible exceeding of the SAIDI target values prescribed by regional departments of tariff regulators and arises from a larger number of process failures in the electric grid sector in connection with power outages and a lengthy period of accident recovery work. With the aim of managing this risk, the Company implements measures and approved capital investment and repair programs in order to improve reliability.

Legal risks

Company's activities and changes to the balance between the interests of the Company and other electricity sector entities.

In order to manage these risks, the Company conducts preliminary legal review of planned corporate procedures, conducted transactions, and other aspects of financial and economic activities provided for by the applicable laws and/or Articles of Association of the Company. The Company updates local regulatory documents with respect to claim-related work.

ROSSETI is involved in governmental authorities' regulatory and legislative activities and constantly monitors changes to legislation and judicial practice.

10. ROSSETI Group Structure

Subsidiaries and dependent companies:

Name	Location
TRANSMISSION GRID COMPANIES	
Federal Grid Company of Unified Energy System, Public Joint-Stock Company	Moscow
INTERREGIONAL GRID COMPANIES	
Joint Stock Company Tyumenenergo	Surgut
Interregional Distribution Grid Company of Volga, Public Joint-Stock Company	Saratov
Interregional Distribution Grid Company of Northern Caucasus, Public Joint-Stock Company	Pyatigorsk
Interregional Distribution Grid Company of North-West, Public Joint Stock Company	Saint Petersburg
Public Joint Stock Company Interregional Distribution Grid Company of Siberia	Krasnoyarsk
Interregional Distribution Grid Company of South, Public Joint Stock Company	Rostov-on-Don
Interregional Distribution Grid Company of Urals, Joint Stock Company	Yekaterinburg

Public Joint-Stock Company Moscow United Electric Grid Company	Moscow
Interregional Distribution Grid Company of Center and Volga Region, Public Joint Stock Company	Nizhni Novgorod
PUBLIC JOINT-STOCK COMPANY LENENERGO	Saint Petersburg
Interregional Distribution Grid Company of Centre, Public Joint-Stock Company	Moscow
DISTRIBUTION GRID COMPANIES	
Yantarenergo Joint-Stock Company	Kaliningrad
Public-Stock Company Tomsk Distribution Company	Tomsk
Chechenenergo, Joint-Stock Company	Grozny
Kuban Power and Electrification Public Joint Stock Company	Krasnodar
REGIONAL RETAIL COMPANIES	
Joint-Stock Company Karachaevo-Cherkesskenergo	Cherkessk
Kalmenergosbyt Joint-Stock Company	Elista

Tyvaenergosbyt Joint-Stock Company	Kyzyl
Kabardino-Balkaria Energy and Electrification Company, Public Joint-Stock Company	Nalchik
Dagestan Energy Supply Company, Public Joint-Stock Company	Makhachkala
Sevkavkazenergo Energy and Electrification Company, Public Joint-Stock Company	Vladikavkaz
Ingushenergo, Public Joint-Stock Company	Nazran
Joint Stock Company NURENERGO	Grozny
R&D AND DESIGN COMPANIES	
Joint-Stock Company Research Engineering Centre of IDGC	Moscow
Joint-Stock Company Association VNIPIENERGOPROM	Moscow
Special Design Bureau of Heat Power Engineering Equipment VTI Open Joint-Stock Company	Moscow
Joint-Stock Company G. M. Krzhizhanovsky Power Engineering Institute	Moscow
Urals Power Engineering Company Joint-Stock Company – URALVNIPIENERGOPROM, Uralselenergoproekt, UralTEP, UralORGRES, UralVTI, Uralenergosetproekt, Chelyabenergosetproekt	Yekaterinburg

Joint Stock Company North-West Power Engineering Center	Saint Petersburg
Joint-Stock Company Volga Power Engineering Center	Samara
CONSTRUCTION, PROCUREMENT, AND SERVICE ORGANIZATIONS	
Joint Stock Company Power Grid Optical Networks Engineering	Moscow
Engineering Center UES Real Estate Joint-Stock Company	Moscow
JOINT STOCK COMPANY NORTH-WEST ENERGY MANAGING COMPANY	Saint Petersburg
Grozenergo Open Joint-Stock Company for Energy and Electrification of the Chechen Republic	Grozny
IT Energy Service Limited Liability Company	Moscow
Joint-Stock Company ZARUBEZHENERGOSTROY	Moscow

11. Disclaimer

The Management Board confirms that to the best of their knowledge: 1. The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and 2. The management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that it faces.

By order of the Board of Directors,

Shukin V.V.
Chief Accountant

12. Glossary

PJSC ROSSETI (ROSSETI)	Public Joint Stock Company ROSSETI
GVA	Gigavolt-ampere
GW	Gigawatt
SDCs	Subsidiaries and dependent companies
kV	Kilovolt
MVA	Megavolt-ampere
MW	Megawatt
IDGC	Interregional distribution grid company
IFRS	International Financial Reporting Standards
RGC	Regional grid company
TGO	Territorial grid organization
AC	Authorized capital
MICEX PWR	MICEX Power Index. The Sector Indices are market capitalization weighted indices calculated based on prices of the most liquid shares of Russian issuers operating in the relevant economic sectors, admitted to trading on MICEX Stock Exchange, and included in the Broad Market Index calculation base.
MSCI Russia	MSCI Russia Index. A Russian stock market index included in the MSCI Emerging Markets Index.

13. Addresses and Contacts

Registered address: Russia, 121353, Moscow, ul. Belovezhskaya, 4

Postal address: Russia, 121353, Moscow, ul. Belovezhskaya, 4

Location: Russia, 121353, Moscow, ul. Belovezhskaya, 4

Telephone: +7 495 995-5333 (from 09:00 to 18:00 Moscow time)

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Application

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www.rsmrus.ru

Public Joint Stock Company ROSSETI and its subsidiaries

Consolidated financial statements prepared in accordance with IFRS

for the year ended 31 December 2015

with independent auditor's report

Contents

Page

d

RSM

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21.04.2016г. N РСМ-2330

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of "ROSSETI", Public Joint-Stock Company ("ROSSETI", PJSC)

Audited entity:
"ROSSETI", Public Joint-Stock Company (abbreviated name - **"ROSSETI", PJSC).**
Location: 4 Belovezhskaya St., Moscow, 121353, Russia;
Primary state registration number – 1087760000019.

Auditor:
RSM RUS Ltd.
Location: 4, Pudovkina Str., Moscow, 119285, Russia;
Tel.: (495) 363-28-48; Fax: (495) 981-41-21;
Primary state registration number – 1027700257540.

RSM RUS Ltd. is a member of self-regulatory organization (SRO) Non-Profit Partnership "Auditor Association Sodruzhestvo" (Membership Certificate # 6938, ORNZ 11306030308 (number in the register of auditing organizations), location: 21, Michurinsky avenue, bldg. 4, Moscow, 119192.

We have audited the accompanying consolidated financial statements of "ROSSETI", PJSC and its subsidiaries (the "Group") which comprise consolidated statement of financial position as at 31 December 2015 and consolidated statements of profit or loss and other comprehensive income, changes in equity and 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 misstatements, whether due to fraud or error.

Auditor's 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 and Federal Auditing Standards effective in the Russian Federation. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Management Board Chairwoman **N.A. Dantser**

Audit Certificate No. 05-000015. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 15 November 2011 No. 24. Permanent award.

ORNZ – 29605011647

"РСМ РУСЬ"

Общество с ограниченной ответственностью * МОСКВА *

(in millions of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	8	766,812	759,608
Operating expenses	10	(652,538)	(759,805)
Other income, net	9	22,069	14,309
Results from operating activities		**136,343**	**14,112**
Finance income	12	16,238	10,712
Finance costs	12	(38,865)	(42,863)
Net finance costs		**(22,627)**	**(32,151)**
Share of loss of associates and joint ventures (net of income tax)		(4)	(10)
Profit/(loss) before income tax		**113,712**	**(18,049)**
Income tax expense	13	(32,110)	(6,208)
Profit/(loss) for the year		**81,602**	**(24,257)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of available-for-sale financial assets	16	7,825	125
Allowance for foreign currency translation differences		(151)	650
Income tax related to items that may be reclassified subsequently to profit or loss	17	(1,565)	(22)
Total items that may be reclassified subsequently to profit or loss		**6,109**	**753**
Items that will never be reclassified subsequently to profit or loss			
Remeasurements of the defined benefit liability	24	(5,186)	3,023
Income tax related to items that will never be reclassified subsequently to profit or loss	17	998	(499)
Total items that will not be reclassified subsequently to profit or loss		**(4,188)**	**2,524**
Other comprehensive income for the year, net of income tax		**1,921**	**3,277**
Total comprehensive income/(loss) for the year		**83,523**	**(20,980)**
Profit/ (loss) attributable to:			
Owners of the Company		64,036	(15,355)
Non-controlling interest		17,566	(8,902)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		65,917	(13,071)
Non-controlling interest		17,606	(7,909)
Earnings /(loss) per share			
Basic and diluted earnings/(loss) per ordinary share (in RUB)	22	0.401	(0.096)

These consolidated financial statements were approved by management on 20 April 2016 and were signed on its behalf by:

General Director

O.M. Budargin

Director for accounting
and reporting – Chief Accountant

V.V. Shchukin

The accompanying notes are an integral part of these Consolidated Financial Statements

(in millions of Russian rubles, unless otherwise stated)

	Notes	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	14	1,734,044	1,643,586
Intangible assets	15	18,532	14,300
Investments in associates and joint ventures		1,489	1,627
Non-current accounts receivable	19	16,572	6,971
Other investments and financial assets	16	31,928	22,952
Deferred tax assets	17	8,579	7,117
Total non-current assets		**1,811,144**	**1,696,553**
Current assets			
Inventories	18	33,921	26,630
Other investments and financial assets	16	36,777	17,908
Current income tax prepayments		4,201	4,636
Trade and other receivables	19	162,624	155,776
Cash and cash equivalents	20	97,090	82,576
Total current assets		**334,613**	**287,526**
Total assets		**2,145,757**	**1,984,079**

(in millions of Russian rubles, unless otherwise stated)

	Notes	31 December 2015	31 December 2014
EQUITY AND LIABILITIES			
Equity	21		
Share capital		163,154	163,154
Share premium		212,978	212,978
Treasury shares		(2,713)	(2,725)
Reserve for issue of shares		33,473	-
Other reserves		(2,100)	(3,981)
Retained earnings		448,120	383,554
Total equity attributable to equity holders of the Company		**852,912**	**752,980**
Non-controlling interest		315,983	285,824
Total equity		**1,168,895**	**1,038,804**
Non-current liabilities			
Loans and borrowings	23	465,439	485,409
Trade and other payables	25	22,075	17,851
Employee benefits	24	29,473	25,512
Deferred tax liabilities	17	60,155	34,389
Total non-current liabilities		**577,142**	**563,161**
Current liabilities			
Loans and borrowings	23	118,832	93,227
Trade and other payables	25	267,972	268,469
Provisions	26	11,421	18,871
Current income tax liabilities		1,495	1,547
Total current liabilities		**399,720**	**382,114**
Total liabilities		**976,862**	**945,275**
Total equity and liabilities		**2,145,757**	**1,984,079**

(in millions of Russian rubles, unless otherwise stated)

	Notes	**Year ended 31 December 2015**	**Year ended 31 December 2014**
OPERATING ACTIVITIES			
Profit/ (loss) for the year		**81,602**	**(24,257)**
Adjustments for:			
Depreciation and amortization of property, plant and equipment and intangible assets	10, 14, 15	100,529	125,910
Impairment of property, plant and equipment	14	(5,090)	81,690
Finance costs	12	38,865	42,863
Finance income	12	(16,238)	(10,712)
Loss on disposal of property, plant and equipment		2,773	148
Share of loss of associates and joint ventures, net of income tax		4	10
Impairment of accounts receivable	10	28,778	18,872
Proceeds from subsidiary disposal	9	(12,410)	-
Bad debt write-off		381	200
Non-cash receipt of property, plant and equipment		(7,687)	(4,427)
Non-cash settlement of technological connection agreements		(954)	(926)
Other non-cash transactions		177	14
Income tax expense		32,110	6,208
Operating profit before changes in working capital		**242,840**	**235,593**
Change in trade and other receivables (before impairment)		(25,118)	(30,019)
Change in inventories (before impairment)		(6,414)	(2,151)
Change in trade and other payables		25,510	5,134
Change in employee benefit liabilities		(3,965)	(2,470)
Change in provisions		(7,136)	8,381
Other		(65)	480
Cash flows from operating activities before income tax and interest paid		**225,652**	**214,948**
Income tax paid		(6,196)	(7,322)
Interest paid		(62,768)	(46,950)
Net cash flows from operating activities		**156,688**	**160,676**

(in millions of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(174,052)	(204,193)
Proceeds from the sale of property, plant and equipment		2,265	4,702
Acquisition of investments and placement of bank deposits		(188,769)	(120,533)
Proceeds from disposal of investments and withdrawal of bank deposits		169,110	144,904
Dividends received		44	31
Interest received		15,662	8,799
Acquisition of subsidiaries	5	1,221	-
Net cash flows used in investing activities		**(174,519)**	**(166,290)**
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		153,716	118,482
Repayment of loans and borrowings		(152,154)	(89,592)
Proceeds from share premium		33,473	-
Acquisition of non-controlling interest in subsidiaries		(413)	-
Dividends paid		(2,032)	(2,020)
Repayment of finance lease liabilities		(245)	(597)
Net cash flows from financing activities		**32,345**	**26,273**
Net increase in cash and cash equivalents		**14,514**	**20,659**
Cash and cash equivalents at the beginning of year		**82,576**	**61,917**
Cash and cash equivalents at the end of year	20	**97,090**	**82,576**

(in millions of Russian rubles, unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2014	**163,154**	**212,978**	**(2,819)**	**(6,265)**	**398,711**	**765,759**	**295,932**	**1,061,691**
Loss for the year	-	-	-	-	(15,355)	(15,355)	(8,902)	(24,257)
Other comprehensive income	-	-	-	2,619	-	2,619	1,179	3 798
Related income tax	-	-	-	(335)	-	(335)	(186)	(521)
Total comprehensive loss for the year	**-**	**-**	**-**	**2,284**	**(15,355)**	**(13,071)**	**(7,909)**	**(20,980)**
Transactions with owners of the Company								
Contributions and distributions								
Disposal of treasury shares	**-**	-	94	-	-	94	-	94
Dividends	-	-	-	-	**-**	**-**	(2,032)	(2,032)
Effect of employee share options	-	-	**-**	-	4	4	-	4
Total contributions and distributions	**-**	**-**	**94**	**-**	**4**	**98**	**(2,032)**	**(1,934)**
Changes in ownership interests in subsidiaries								
Shares issued by subsidiaries	-	-	-	-	194	194	(167)	27
Total transactions with owners of the Company	**-**	**-**	**94**	**-**	**198**	**292**	**(2,199)**	**(1,907)**
Balance at 31 December 2014	**163,154**	**212,978**	**(2,725)**	**(3,981)**	**383,554**	**752,980**	**285,824**	**1,038,804**

(in millions of Russian rubles, unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Treasury shares**	**Reserve for issue of shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2015	**163,154**	**212,978**	**(2,725)**	**-**	**(3,981)**	**383,554**	**752,980**	**285,824**	**1,038,804**
Profit for the year	-	-	-	-	-	64,036	64,036	17,566	81,602
Other comprehensive income	-	-	-	-	2,409	-	2,409	79	2,488
Related income tax	-	-	-	-	(528)	-	(528)	(39)	(567)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**1,881**	**64,036**	**65,917**	**17,606**	**83,523**
Transactions with owners of the Company									
Contributions and distributions									
Issue of shares (see Note 21)	-	-	-	33,473	-	-	33,473	-	33,473
Disposal of treasury shares (see Note 21)	-	-	12	-	-	-	12	-	12
Dividends	-	-	-	-	-	11	11	(2,045)	(2,034)
Effect of employee share options	-	-	-	-	-	1	1	-	1
Total contributions and distributions	**-**	**-**	**12**	**33,473**	**-**	**12**	**33,497**	**(2,045)**	**31,452**
Changes in ownership interests in subsidiaries									
Shares issued by subsidiaries (see Note 21)	-	-	-	-	-	159	159	15,079	15,238
Purchase of non-controlling interest in subsidiaries with a change in control	-	-	-	-	-	359	359	(481)	(122)
Total transactions with owners of the Company	**-**	**-**	**12**	**33,473**	**-**	**530**	**34,015**	**12,553**	**46,568**
Balance at 31 December 2015	**163,154**	**212,978**	**(2,713)**	**33,473**	**(2,100)**	**448,120**	**852,912**	**315,983**	**1,168,895**

1 Background

(a) The Group's organisational structure and its operations

Joint Stock Company IDGC Holding (hereinafter referred to as "JSC IDGC Holding") was established on 1 July 2008 in accordance with the resolution of the Extraordinary General Meeting of the Shareholders of the Unified Energy System of Russia (hereinafter referred to as "RAO UES") dated 26 October 2007, as a spin-off of RAO UES.

At an Extraordinary General Meeting of Shareholders of JSC IDGC Holding on 23 March 2013, the decision was made to amend the Charter of JSC IDGC Holding, under which it was renamed JSC Russian Grids. On 4 April 2013, the respective changes to the Charter of JSC IDGC Holding were registered by the Interregional Inspectorate of the Federal Tax Service No. 46 for the city of Moscow.

Due to changes in the Civil Code of the Russian Federation at the Annual General Shareholders' Meeting held on 30 June 2015 the changes of organizational and legal form in the Charter of the Company were approved. JSC Russian Grids changed to Public Joint stock company «ROSSETI» (hereinafter referred to as PJSC «ROSSETI» or the "Company").

The ordinary and preference shares of the Company are traded on the MICEX-RTS Stock Exchange. The Company's GDRs are listed on the London Stock Exchange.

The Company's registered office is located at 4 Belovezhskaya Street, Moscow, Russia, 121353.

The ROSSETI Group (hereinafter referred to as the "Group") is comprised of PJSC «ROSSETI» and its subsidiaries presented in Note 5.

The Group's principal activities are provision of services for transmission and distribution of electricity for power grids, as well as the provision of services for technological connection of consumers to the network.

The Group's power distribution companies sell electricity. In addition, some interregional distribution grid companies also worked as guaranteeing electricity suppliers in 2014.

(b) Russian business environment

The Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display the characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

In 2014, the Russian economy was negatively impacted by macroeconomic factors, including devaluation of the Russian Ruble. In December 2014, the Ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. In 2015, the situation has somewhat leveled off. The Central Bank of Russia several times reduced the key interest rate, exchange rate fluctuations and inflation were smoothed. However, risks remain that a combination of economic factors may negatively affect Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

1 Background (continued)

(b) Russian business environment (continued)

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from the management's assessment.

(c) Relations with state and current regulations

The Group's strategic business units (see Note 7) are regional natural monopolies. The Russian Government directly affects the Group's operations through tariffs regulations.

In accordance with Russian legislation, the Group's tariffs are regulated by executive authorities of subjects of the Russian Federation in the field of state regulation of tariffs and Federal Antimonopoly Service.

As at 31 December 2015, the Russian Government owned 86.32% of the voting ordinary shares and 7.01% of the preference shares of the Company (31 December 2014: 86.32% of the voting ordinary shares and 7.01% of the preference shares). The Russian Government, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Company. The Group is supported by the Russian Government due to its strategic position in the economy of the Russian Federation. The Group's customer base includes a large number of state-controlled entities.

2 Basis of preparation of consolidated financial statements

(a) Statement of compliance

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

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the RF ("RAR"). The accompanying Consolidated Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except for investments classified as available-for-sale financial assets that have been measured at fair value.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian ruble (RUB), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

2 Basis of preparation of consolidated financial statements (continued)

(d) Use of professional judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make a number of professional judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Assumptions and estimates made on their basis are continually evaluated to determine the necessity to change them. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected by these changes.

Professional judgements that have the most significant effect on the amounts recognised in these Consolidated Financial Statements and estimates and assumptions that can require significant adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Deferred tax assets recognition. At every reporting date management assesses the amount of deferred tax assets to be reflected in the consolidated financial statement to the extent in which it is likely to be used as tax allowances. When determining future taxable profit and related tax allowances management uses estimates and assumptions based on prior periods taxable profit and expectations related to the future profit.

Impairment of accounts receivable. Bad debt provision is based on management assumptions of debt recovery made for each debtor individually. Objective indicators of impairment are as follows: default or debtor failure to meet contractual obligations, debt restructuring to the Group under such terms that would have never been taken in regular conditions, signs of possible bankruptcy, unfavourable change in debtors paying capacity.

Impairment of fixed assets. At the end of each reporting period the Group assesses whether there are any indicators that an asset may be impaired. Such indicators include changes in business plans, tariffs and other factors that may lead to unfavourable conditions for the Group's activities.

(e) Implementation of new and revised standards and interpretations

The Group has applied all IFRS standards and its interpretations that affect the Group's operations and came into effect on 1 January 2015. The application of such IFRS standards and interpretations had no material impact on the financial position of the Group.

(f) Change in presentation

Reclassification of comparative information

The Group changed presentation in the comparative financial statements for certain items to comply with the current period presentation. All reclassifications are immaterial.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to risks connected to variable returns from its involvement with the entity or has the rights to those returns and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses attributable to the non-controlling interests in a subsidiary are allocated to non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

1) The fair value of the consideration transferred: plus

2) The recognized amount of any non-controlling interests in the acquiree; plus

3) The fair value of the pre-existing equity interest in the acquiree if the business combination is achieved in stages; less

4) The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss for the period.

Transaction costs that the Group incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss for the period.

3 Significant accounting policies (continued)

(iii) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners, and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

(iv) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for by the method the predecessor. The assets and liabilities of a business acquired in a common control transaction are recognized at the carrying amounts recognized previously in the consolidated financial statements of the acquired entities. Any cash or other contribution paid for the acquisition is recognized directly in equity.

(v) Investments in associates (object of investments in equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment also includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3 Significant accounting policies (continued)

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale financial assets which are recognized in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments include investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are originated at fair value. All other financial assets are recognized initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group has the following non-derivative financial assets: loans and receivables, held for maturity investments, cash and cash equivalents, and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Receivables are presented inclusive of value-added tax.

3 Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Non-derivative financial assets (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and highly liquid investments with maturities at initial recognition of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Financial assets held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the effective interest rate, less impairment.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(k)(i) and foreign currency differences on available-for-sale debt instruments (see Note 3(b), are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss for the period. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets comprise equity securities.

(iii) Non-derivative financial liabilities

The Group initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

3 Significant accounting policies (continued)

(d) Share capital

Ordinary shares and non-redeemable preference shares are both classified as equity.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The deemed cost of property, plant and equipment as at 1 January 2007, the date of transition to IFRS, was determined by using its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed (built) assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net within other income, net in profit or loss for the period.

(ii) Subsequent costs

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

3 Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings 7-50 years
- Transmission networks 5-40 years
- Equipment for electricity transmission 5-40 years
- Other assets 1-50 years

Estimated useful lives and residual values are reviewed at each financial year and adjusted if appropriate.

(f) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates, and joint ventures.

For the measurement of goodwill at initial recognition, see Note 3(a)(ii).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. With respect to associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

3 Significant accounting policies (continued)

(f) Intangible assets (continued)

(iv) Amortization

Amortization expense on intangible assets, other than goodwill is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- Licenses and certificates 1-10 years
- Software 1-15 years

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as financial leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum (discounted) lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the consolidated statement of the Group's financial position.

(h) Inventories

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

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

(i) Advances given

Advances given are classified as non-current if they are connected with the acquisition of an asset which will be classified as non-current upon initial recognition. Advances given for the acquisition of an asset are included in its carrying amount upon the acquisition of control over the asset, and when it is probable that the Group will obtain economic benefit from its usage.

3 Significant accounting policies (continued)

(j) Value-added tax

Output value-added tax (VAT) related to sales is payable to the tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. Amounts of VAT related to advances received and given as well as VAT prepayment are recognized in the consolidated statement of financial position on a net basis and disclosed as an asset within accounts receivable (VAT recoverable). Amounts of VAT to be paid to the tax authorities are presented separately within short-term accounts payable.

Where a provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(k) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss with respect to a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. In the event of any subsequent event that leads to a decrease in the value of the impairment loss, the recovered amount of previously allocated to impairment, loss is recognized in profit or loss for the period.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

Changes in impairment provisions attributable to the application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

3 Significant accounting policies (continued)

(k) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of CGU. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units which it related to.

The Group's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized with respect to cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the CGU (group of CGU) on a pro rata basis.

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

(l) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State Pension Fund, are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

3 Significant accounting policies (continued)

(l) Employee benefits (continued)

(ii) Defined benefit post-employment plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation with respect to defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss. Actuarial gains and losses on changes in actuarial assumptions are recognized in other comprehensive income and expense.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Other non-current employee benefits

The Group's net obligation with respect to long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Remeasurements are recognized in profit or loss in the period in which they arise.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3 Significant accounting policies (continued)

(m) Provisions

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

(n) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

(i) Electricity distribution and sales of electricity

Revenue from electricity transmission is recognized based on acts of services rendered. The act is prepared for each counterparty in accordance with the concluded contract on the provision of services based on the meter readings and the “boiler” tariffs. The tariffs for the distribution of electricity on the regulated market are approved by the executive authorities of subjects of the Russian Federation (hereinafter - regional regulatory authority) in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Antimonopoly Service of the Russian Federation.

Revenue from the sale of electricity is recognized based on:

- Monthly acts of acceptance of electricity under the electricity supply agreements (electricity sale agreements) of legal entities, based on the meter readings and unregulated prices formed on the retail market in the settlement period;
- Monthly documents (receipts) on the consumption of utilities services by individuals based on the meter readings and tariffs approved by the regional regulatory authority.

Revenue from the resale of electricity and capacity which is sold under power supply contracts includes the part of revenue related to the transmission of electricity. The tariff for the sale of electricity under power supply contracts is calculated with the transmission fee taken into account.

3 Significant accounting policies (continued)

(n) Revenue (continued)

(ii) Technological connection services

Regional regulatory authority approves payment for technological connection according to individual project, as well as standardized tariff rates and rates per unit of maximum supplied power on the basis of which the territorial network organization calculates the fee for technological connection to electric networks.

Payment for technological connection to the unified national electric network is approved by the Federal Antimonopoly Service.

Revenue from technological connection to power grids is calculated on the basis of the size of payment for technological connection determined in accordance with the legislation of the Russian Federation in the electricity sector.

Revenue for technological connection to the power network is recognized on the basis of the acts of acceptance of technological connection. In cases where under the terms of the contracts technological connection to power grids is performed in stages, revenue is recognized upon completion of stages of services.

(iii) Other services

Revenue from installation, repair and maintenance services and other sales is recognized when the services are provided or when the significant risks and rewards of ownership of the goods have passed to the buyer.

(o) Government subsidies

Government grants are recognized where there is reasonable assurance that the grant will be received and all the attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

Government subsidies that compensate the Group for low electricity tariffs are recognized in profit or loss in the same periods in which the respective revenue is earned.

(p) Other expenses

(i) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3 Significant accounting policies (continued)

(p) Other expenses (continued)

(i) Lease payments (continued)

Determining whether an arrangement contains a lease

At the inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other considerations required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Group's incremental borrowing rate.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large without creating constructive obligations to provide such benefit in the future and are not restricted to the Group's employees, they are recognized in the income statements as incurred.

(q) Finance income and costs

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

Finance costs are comprised of interest expense on borrowings, financial leasing, foreign currency losses, discounts on financial instruments and impairment losses recognized on financial assets other than trade receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs, depending on whether foreign currency movements are in a net gain or net loss position.

3 Significant accounting policies (continued)

(r) Income tax expense

Income tax expense is comprised of current and deferred tax. It is recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination, and that affects neither accounting nor taxable profit or loss;
- Temporary differences relating to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- Taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group accrues tax liabilities for open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions, and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

3 Significant accounting policies (continued)

(s) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Profit attributable to ordinary shareholders is calculated by adjusting profit attributable to owners of the Company by profit attributable to holders of preference shares.

(t) Segment reporting

The Group determines and presents operating segments based on internal information provided to the Management Board of the Company, which is the Group's chief operating decision-making body.

An operating segment is a component of the Group that engages in business activities and from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating results of operating segments for which discrete financial information is available are reviewed regularly by the Management Board so that it can make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly parent company revenue, expenses, assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Inter-segment pricing is determined on an arm's length basis.

3 Significant accounting policies (continued)

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2015, and have not been applied in preparing Consolidated Financial Statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group is currently assessing the impact of the new Standards, amendments to Standards and Interpretations on its consolidated financial statements.

- In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments". The final version of IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted..
- IFRS 15 "Revenue from Contracts with Customers" will come into effect for annual periods beginning on or after 1 January 2018. The new standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 16 "Leases" is effective for annual reporting periods beginning on or after 1 January 2019, earlier application is permitted if IFRS 15 "Revenue from Contracts with Customers" is also adopted. IFRS 16 replaces the existing lease accounting guidance in IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

The Group expects that following new Standards and Interpretations after being effective would have no material impact on consolidated financial statements:

- IFRS 14 "Regulatory Deferred Accounts"
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Annual Improvements to IFRSs 2012 – 2014 Cycle – various standards.
- Disclosure Initiative (Amendments to IAS 1)

4 Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair value for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Group uses observable market data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 27.

(in millions of Russian rubles, unless otherwise stated)

5 Significant subsidiaries

		31 December 2015	31 December 2014
	Country of incorporation	**Ownership/voting, %**	**Ownership/voting, %**
PJSC FGC UES	Russian Federation	80.15	80.15
PJSC MOESK	Russian Federation	50.90	50.90
JSC Tyumenenergo	Russian Federation	100.00	100.00
PJSC Lenenergo	Russian Federation	68.01/68.75	67.55/70.42
PJSC IDGC of Centre	Russian Federation	50.23	50.23
JSC IDGC of Urals	Russian Federation	51.52	51.52
PJSC IDGC of Centre and Volga region	Russian Federation	50.40	50.40
PJSC Kubanenergo	Russian Federation	92.24	92.24
PJSC IDGC of Siberia	Russian Federation	55.59	55.59
PJSC IDGC of Volga	Russian Federation	67.75	67.63
PJSC IDGC of North-West	Russian Federation	55.38	55.38
PJSC IDGC of North Caucasus	Russian Federation	93.20	93.20
JSC Chechenenergo	Russian Federation	72.66	72.66
PJSC IDGC of South	Russian Federation	51.66	51.66
PJSC TDC	Russian Federation	85.77/94.58	85.77 / 94.58
JSC Yantarenergo	Russian Federation	100.00	100.00
JSC Karachaevo-Cherkesskenergo	Russian Federation	100.00	100.00
JSC Kalmenergosbyt	Russian Federation	100.00	100.00
PJSC Kabbalkenergo	Russian Federation	65.27	65.27
JSC Tyvaenergosbyt	Russian Federation	100.00	100.00
JSC Ingushenergo	Russian Federation	49.00*	49.00*
PJSC Sevkavkazenergo	Russian Federation	55.94	55.94
PJSC Dagestan Power Sales Company	Russian Federation	51.00	51.00

* The Group exercises control over these entities through its majority representation on the Board of Directors.

(in millions of Russian rubles, unless otherwise stated)

5 Significant subsidiaries (continued)

Business combinations

On 23 December 2015 PJSC “Lenenergo”, the Group subsidiary, obtained control over the Joint-stock company "Saint Petersburg power grid" operations by acquiring 100 % of the shares of Joint-stock company "Saint Petersburg power grid" from a third party and obtained control over the Petrodvorets Electric Company operations by acquiring 60.1 % of the shares of Petrodvorets Electric Company from a third party. Following the acquisition, given the participation of Joint-stock company "Saint Petersburg power grid" in the Charter capital of Petrodvorets Electric Company in the amount of 28.6% of shares of Petrodvorets Electric Company (the fair value of the shares is equal to RUB 370 million), PJSC "Lenenergo" owns 88.7% of the voting shares of Petrodvorets Electric Company.

Revenues and financial results of Joint-stock company "Saint Petersburg power grid" and Petrodvorets Electric Company from the date of acquisition to 31 December 2015 have not had any significant effect on these consolidated financial statements.

The identifiable assets Joint-stock company "Saint Petersburg power grid" acquired and the liabilities assumed were as follows:

	Recognised fair value at acquisition
Assets	
Property, plant and equipment	9,980
Intangible assets	1,836
Deferred tax assets	2,306
Receivable	3,839
Cash and cash equivalents	1,107
Other assets	6,028
Total assets	**25,096**
Liabilities	
Loans and borrowings	(2,310)
Payables	(2,748)
Other liabilities	(6,206)
Total liabilities	**(11,264)**
Net identifiable assets and liabilities	**13,832**
Goodvill	606
Gain on bargain purchase	**14,438**

(in millions of Russian rubles, unless otherwise stated)

5 Significant subsidiaries (continued)

Business combinations (continued)

The identifiable assets Petrodvorets Electric Company acquired and the liabilities assumed were as follows:

	Recognised fair value at acquisition
Assets	
Property, plant and equipment	654
Intangible assets	305
Receivable	394
Cash and cash equivalents	114
Other assets	899
Total assets	**2,366**
Liabilities	
Payables	(1,033)
Deferred tax liabilities	(33)
Total liabilities	**(1,066)**
Net identifiable assets and liabilities	**1,300**
Non-controlling interest	(147)
Goodvill	17
Gain on bargain purchase	**1,170**

The difference between the compensation paid and the fair value of the shares acquired was recorded as goodwill associated with the expected synergies from the acquisition.

(in millions of Russian rubles, unless otherwise stated)

5 Significant subsidiaries (continued)

Deconsolidation of a subsidiary

In 2015 OJSC Dagenergoset entered in the bankruptcy proceedings. According to the court decision dated 26 October 2015 OJSC Dagenergoset became subjected to the control of the interim trustee. Hence, as of 26 October 2015 the Group lost control over the subsidiary. At this point in time the Group recognised the fair value of the investment retained in OJSC Dagenergoset in the amount of RUB 0.15 million. The investment was impaired down to zero.

At the date of disposal, the carrying amount of the assets and liabilities of OJSC Dagenergoset were as follows:

	Carrying amount at the date of disposal
Assets	
Property, plant and equipment	25
Receivable	1,292
Other assets	37
Total assets	**1,354**
Liabilities	
Payables	(13,357)
Other liabilities	(501)
Total liabilities	**(13,858)**
Net identifiable assets and liabilities	**(12,504)**
Gain on disposal	**(12,504)**

The subsidiary contributed RUB 1,219 million of loss to the net profit for the reporting period. Gain on deconsolidation of the subsidiary was recorded in the net other income in the amount of RUB 12,504 million (Note 9).

As at 31 December 2015 the Group accrued an allowance for doubtful accounts receivables of OJSC Dagenergoset in the amount of RUB 13,604 million (Note 27).

From 1 July 2015 the operating activity of OJSC Dagenergoset were transferred to JSC Grid Company of Dagestan.

(in millions of Russian rubles, unless otherwise stated)

6 Non-controlling interests

The following table summarizes the information relating to each of the Group's subsidiaries that has material non-controlling interest, before any intra-group eliminations.

31 December 2015 and for the year then ended

RUB mln.	FGC	MOESK	Lenenergo	IDGC of Centre	IDGC of Urals	IDGC of Centre and Volga region	IDGC of Siberia	Other individually immaterial subsidiaries	Total
Non-controlling percentage	19.85	49.10	31.99	49.77	48.48	49.60	44.41		
Non-current assets	874,128	299,225	138,451	80,175	62,652	60,656	35,054		
Current assets	140,506	28,984	41,970	20,274	15,204	17,620	18,113		
Non-current liabilities	(275,499)	(95,001)	(36,179)	(48,352)	(14,118)	(22,186)	(12,141)		
Current liabilities	(103,674)	(61,763)	(52,418)	(13,224)	(21,971)	(21,750)	(26,881)		
Net assets	**635,461**	**171,445**	**91,824**	**38,873**	**41,767**	**34,340**	**14,145**		
Carrying amount of non-controlling interest	**126,101**	**84,776**	**31,427**	**19,347**	**20,838**	**17,033**	**6,236**	**10,225**	**315,983**
Revenue	195,308	132,356	45,016	80,830	69,672	69,087	44,716		
Profit	58,353	12,313	2,934	840	1,620	3,461	72		
Other comprehensive income/(loss)	3,613	(248)	76	(97)	(249)	(570)	(55)		
Total comprehensive income/(loss)	**61,966**	**12,065**	**3,010**	**743**	**1,371**	**2,891**	**17**		
Profit/(loss) allocated to non-controlling interest	12,271	6,045	995	418	786	1,717	32	(4,698)	17,566
Other comprehensive income/(loss) allocated to non-controlling interest	29	(122)	25	(48)	(121)	(283)	(25)	585	40
Cash flows from operating activities	98,023	26,697	13,671	9,090	8,562	5,141	3,648		
Cash flows used in investment activities	(97,242)	(28,174)	(10,336)	(13,243)	(7,336)	(2,832)	(5,249)		
Cash flows from financing activities:	(14,673)	(2,427)	21,299	3,881	(600)	(2,379)	417		
- including dividends to non-controlling shareholders	(164)	(1,009)	-	(407)	(258)	(169)	(12)		
Net increase/ (decrease) in cash and cash equivalents	**(13,892)**	**(3,904)**	**24,634**	**(272)**	**626**	**(70)**	**(1,184)**		

(in millions of Russian rubles, unless otherwise stated)

6 Non-controlling interests (continued)

31 December 2014 and for the year then ended

RUB mln.	FGC	MOESK	Lenenergo	IDGC of Centre	IDGC of Urals	IDGC of Centre and Volga region	IDGC of Siberia	Other individually immaterial subsidiaries	Total
Non-controlling percentage	19.85	49.10	32.45	49.77	48.48	49.60	44.41		
Non-current assets	817,680	283,057	114,398	74,315	61,826	58,986	33,827		
Current assets	118,448	29,480	17,204	19,479	13,951	18,622	16,094		
Non-current liabilities	(241,312)	(74,698)	(52,730)	(34,323)	(18,287)	(27,237)	(16,200)		
Current liabilities	(120,243)	(76,393)	(38,018)	(20,539)	(16,278)	(18,575)	(20,072)		
Net assets	**574,573**	**161,446**	**40,854**	**38,932**	**41,212**	**31,796**	**13,649**		
Carrying amount of non-controlling interest	**114,402**	**80,294**	**15,174**	**19,464**	**20,729**	**16,116**	**6,241**	**13,404**	**285,824**
Revenue	178,139	128,020	45,510	86,955	68,975	69,352	60,489		
Profit/(Loss)	16,958	5,434	(8,925)	(3,285)	1,515	(2,084)	(10,458)		
Other comprehensive income/(loss)	2,202	280	139	532	(97)	57	129		
Total comprehensive income/(loss)	**19,160**	**5,714**	**(8,786)**	**(2,753)**	**1,418**	**(2,027)**	**(10,329)**		
Profit/(loss) allocated to non-controlling interest	3,136	2,637	(2,910)	(1,652)	698	(1,034)	(4,644)	(5,133)	(8,902)
Other comprehensive income/(loss) allocated to non-controlling interest	437	137	45	265	(47)	28	57	71	993
Cash flows from operating activities	89,726	35,808	8,847	7,978	11,761	5,872	3,271		
Cash flows used in investment activities	(24,772)	(45,792)	(27,475)	(12,345)	(8,860)	(9,802)	(6,830)		
Cash flows from financing activities:	(44,513)	12,693	16,420	3,648	(1,228)	2,940	5,067		
- including dividends to non-controlling shareholders	(86)	(1,429)	(55)	(25)	(38)	(307)	-		
Net increase/ (decrease) in cash and cash equivalents	**20,441**	**2,709**	**(2,208)**	**(719)**	**1,673**	**(990)**	**1,508**		

7 Information about segments

The Group has fourteen reportable segments, as described below, which are the Group's strategic business units. Each strategic business unit offers electricity transmission services, including technological connection services, in a separate geographical region of the Russian Federation and is managed separately.

The "other" segment includes several operating segments such as electricity sales, rent services and repair services. Unallocated items are comprised mainly of assets and account balances related to the Company's headquarters, which exercises management activity.

The Management Board of the Company assesses the performance, assets and liabilities of operating segments based on internal management accounting, which is based on the information reported in statutory accounts. Performance of each reportable segment is measured based on earnings or loss before interest expense, income tax and depreciation and amortization (EBITDA). Management believes that EBITDA is the most relevant measurement for evaluating the results of the Group's operating segments.

The reconciliation of reportable segment measurements with similar items in these consolidated financial statements includes those reclassifications and adjustments that are necessary for the financial statements to be presented in accordance with IFRS.

Information regarding reportable segments is included below.

(in millions of Russian rubles, unless otherwise stated)

7 Information about segments (continued)

(i) Information about reportable segments

As at 31 December 2015 and for the year ended 31 December 2015:

	IDGC Siberia and Tomskaya DC	Tyumen-energo	IDGC Urals	IDGC Volga	IDGC South	Kubanenergo	IDGC North Caucasus	IDGC Centre and Privolzhye	IDGC North-West	Lenenergo	Yantar-energo	IDGC Centre	MOESK	FGC	Other	Total
Revenue from external customers	48,596	53,503	54,624	47,856	29,904	35,699	8,825	68,834	36,380	43,609	973	79,777	129,272	43,393	71,302	752,547
Inter-segment revenue	37	8	5,912	4	461	5	5,724	50	3,243	118	3,427	40	16	129,873	28,570	177,488
Segment revenue	**48,633**	**53,511**	**60,536**	**47,860**	**30,365**	**35,704**	**14,549**	**68,884**	**39,623**	**43,727**	**4,400**	**79,817**	**129,288**	**173,266**	**99,872**	**930,035**
Including																
Electricity transmission	47,365	52,871	58,227	47,308	29,675	34,403	13,566	67,938	36,881	40,684	3,987	77,734	117,683	158,986	9,734	797,042
Connection services	1,015	412	1,862	348	500	1,213	142	692	804	2,865	287	1,160	10,302	12,397	1,468	35,467
Resale of electricity	-	-	-	-	-	-	53	-	946	-	-	-	-	-	62,444	63,443
Other revenue	253	228	447	204	190	88	788	254	992	178	126	923	1,303	1,883	26,226	34,083
Finance income	180	1,206	452	111	75	479	138	407	198	1,006	7	285	935	8,312	541	14,332
Finance costs	(1,279)	-	(870)	(1,233)	(2,559)	(2,261)	(651)	(2,346)	(1,800)	(3,778)	(379)	(4,195)	(4,787)	(8,464)	(1,344)	(35,946)
Depreciation	4,881	7,077	4,378	5,708	2,724	3,208	2,011	6,264	4,176	10,060	400	9,059	23,807	77,217	3,908	164,878
EBITDA	**6,934**	**12,270**	**8,453**	**7,676**	**5,774**	**7,685**	**(436)**	**10,493**	**6,856**	**7,310**	**335**	**15,219**	**41,955**	**113,565**	**(3,943)**	**240,146**
Segment assets	**73,311**	**141,777**	**65,586**	**63,942**	**43,012**	**64,318**	**33,490**	**91,263**	**59,607**	**194,683**	**9,692**	**117,869**	**332,750**	**1,268,301**	**153,313**	**2,712,914**
Including property, plant and equipment and construction in progress	51,320	127,775	50,038	53,274	28,897	53,710	24,955	72,258	40,832	134,607	6,374	95,289	288,332	1,083,487	76,699	2,187,847
Capital expenditure	6,195	9,376	6,176	2,521	1,792	8,094	1,285	5,173	4,117	6,951	1,333	12,935	36,295	75,483	2,865	180,591
Segment liabilities	**39,388**	**24,037**	**30,494**	**20,952**	**37,739**	**31,988**	**18,220**	**40,967**	**32,000**	**81,347**	**7,558**	**61,556**	**141,761**	**382,915**	**160,254**	**1,111,176**

(in millions of Russian rubles, unless otherwise stated)

7 Information about segments (continued)

(i) Information about reportable segments (continued)

As at 31 December 2014 and for the year ended 31 December 2014:

	IDGC Siberia and Tomskaya DC	**Tyumen-energo**	**IDGC Urals**	**IDGC Volga**	**IDGC South**	**Kubanenergo**	**IDGC North Caucasus**	**IDGC Centre and Privolzhye**	**IDGC North-West**	**Lenenergo**	**Yantar-energo**	**IDGC Centre**	**MOESK**	**FGC**	**Other**	**Total**
Revenue from external customers	63,665	52,048	53,917	45,944	28,484	29,387	7,829	68,190	41,388	44,561	836	86,627	125,102	42,829	65,226	756,033
Inter-segment revenue	919	28	5,691	48	408	7	5,665	972	2,873	161	3,369	78	158	126,112	29,292	175,781
Segment revenue	**64,584**	**52,076**	**59,608**	**45,992**	**28,892**	**29,394**	**13,494**	**69,162**	**44,261**	**44,722**	**4,205**	**86,705**	**125,260**	**168,941**	**94,518**	**931,814**
Including																
Electricity transmission	57,648	50,895	57,481	45,244	28,009	28,464	12,281	65,113	31,343	36,261	3,804	69,151	112,509	159,780	10,764	768,747
Connection services	954	871	1,720	488	704	848	436	723	882	8,249	250	1,496	11,829	6,999	1,750	38,199
Resale of electricity	5,681	-	-	-	-	-	-	3,056	11,017	-	-	15,053	-	-	59,856	94,663
Other revenue	301	310	407	260	179	82	777	270	1,019	212	151	1,005	922	2,162	22,148	30,205
Finance income	76	457	174	29	43	634	127	265	237	1,345	2	107	550	5,995	310	10,351
Finance costs	(1,047)	(1)	(942)	(912)	(2,236)	(1,801)	(355)	(2,038)	(1,395)	(2,766)	(243)	(2,502)	(3,457)	(5,544)	(623)	(21,390)
Depreciation	4,969	7,242	4,116	5,662	2,872	2,472	1,878	5,866	3,956	9,078	364	8,375	22,139	80,216	3,376	162,581
EBITDA	**6,792**	**11,612**	**7,433**	**6,836**	**(1,410)**	**537**	**371**	**10,190**	**4,821**	**3,050**	**522**	**15,741**	**37,495**	**100,098**	**(3,758)**	**200,270**
Segment assets	**70,168**	**135,470**	**62,232**	**66,400**	**41,481**	**61,715**	**33,753**	**93,718**	**60,905**	**164,769**	**7,740**	**111,392**	**326,036**	**1,231,217**	**105,946**	**2,572,942**
Including property, plant and equipment and construction in progress	50,093	122,834	48,360	56,624	29,987	47,499	25,461	73,478	40,925	139,479	5,293	89,171	275,494	1,078,341	51,714	2,135,053
Capital expenditure	6,129	8,031	7,107	5,789	1,130	8,278	2,098	8,025	5,197	23,040	832	12,177	45,494	127,965	5,101	266,878
Segment liabilities	**37,287**	**24,370**	**29,098**	**23,702**	**36,258**	**32,093**	**15,464**	**44,018**	**33,940**	**93,329**	**6,006**	**55,160**	**142,249**	**376,727**	**133,335**	**1,083,136**

(in millions of Russian rubles, unless otherwise stated)

7 Information about segments (continued)

(ii) Major customer

In 2015, the Inter RAO Group (consisting primarily of electricity sales companies within the Inter RAO Group) was a major customer of the Group. Total revenues from companies of Inter RAO Group amounted to RUB 189,995 million for the year ended 31 December 2015 (RUB 163,152 million for the year ended 31 December 2014).

(iii) Reconciliations of reportable segment revenues, EBITDA and assets and liabilities

The reconciliation of key segment items measured as reported to the Management Board of the Group with similar items in these consolidated financial statements is presented below.

The reconciliation of segment revenue is presented below:

	Year ended 31 December 2015	Year ended 31 December 2014
Segment revenues	**930,035**	**931,814**
Intersegment revenue elimination	(177,488)	(175,781)
Reclassification from other income	14,817	4,324
Other adjustments	(556)	(760)
Unallocated revenues	4	11
Revenues per consolidated statement of profit or loss and other comprehensive income	**766,812**	**759,608**

(in millions of Russian rubles, unless otherwise stated)

7 Information about segments (continued)

(iii) Reconciliations of reportable segment revenues, EBITDA and assets and liabilities (continued)

Reconciliation of reportable segment EBITDA is presented below:

	Year ended 31 December 2015	Year ended 31 December 2014
EBITDA of reportable segments	**240,146**	**200,270**
Adjustment for disposal of property, plant and equipment	73	4,130
Adjustment for inventories valuation	(11)	193
Discounting of financial instruments	(262)	261
Adjustment for receivables' impairment allowance	(7,118)	(821)
Adjustment for finance lease	462	783
Impairment of property, plant and equipment	4,484	(78,872)
Accrued salaries and wages to employees	(17)	300
Employee benefit obligations recognition	1,225	437
Adjustment on assets related to employee benefit obligations	64	(164)
Provisions	892	1,181
Adjustment for deferred expenses	(418)	(31)
Adjustment of available-for-sale financial assets	22	1,173
Adjustment of impairment of intercompany promissory notes	(2,137)	2,427
Other adjustments	9,926	516
Unallocated items	1,611	51
	248,942	**131,834**
Depreciation and amortization	(100,529)	(125,910)
Interest expenses on financial liabilities	(34,607)	(23,804)
Interest expenses on finance lease liabilities	(94)	(169)
Income tax expense	(32,110)	(6,208)
Profit/(loss) for the year per consolidated statement of profit or loss and other comprehensive income	**81,602**	**(24,257)**

(in millions of Russian rubles, unless otherwise stated)

7 Information about segments (continued)

(iii) Reconciliations of reportable segment revenues, EBITDA and assets and liabilities (continued)

The reconciliation of reportable segment total assets is presented below:

	31 December 2015	31 December 2014
Total segment assets	**2,712,914**	**2,572,942**
Intersegment balances	(165,727)	(121,586)
Intersegment investments	(50,194)	(34,936)
Trade and other receivables and payables offsetting	(10,532)	(2,860)
Adjustment for net book value of property, plant and equipment	(153,331)	(165,155)
Impairment of property, plant and equipment	(299,525)	(318,527)
Assets related to employee benefits	6,617	6,552
Investments in associates and joint ventures	749	1,520
Adjustment for allowance for impairment of account receivables	21,470	24,714
Inventories write-off	(106)	(554)
Adjustment for deferred tax	(11,296)	(18,770)
Advances given	(2,517)	(3,939)
Other adjustments	39,892	24,202
Unallocated items	57,343	20,476
Total assets per consolidated statement of financial position	**2,145,757**	**1,984,079**

The reconciliation of reportable segment total liabilities is presented below:

	31 December 2015	31 December 2014
Total segment liabilities	**1,111,176**	**1,083,136**
Intersegment balances	(164,998)	(119,543)
Trade and other receivables and payables offsetting	(10,532)	(2,860)
Adjustment for deferred tax	(27,939)	(43,391)
Employee benefit obligations	29,473	25,512
Finance lease liabilities	727	954
Accrued salaries and wages to employees	172	166
Other provisions and accruals	1,552	422
Other adjustments	1,685	(890)
Unallocated items	35,546	1,769
Total liabilities per consolidated statement of financial position	**976,862**	**945,275**

(in millions of Russian rubles, unless otherwise stated)

8 Revenue

	Year ended 31 December 2015	Year ended 31 December 2014
Electricity transmission	650,376	620,022
Technological connection services	34,165	36,473
Sales of electricity and capacity	55,913	86,516
Other revenue	25,354	12,484
	765,808	**755,495**
Government subsidies	1,004	4,113
	766,812	**759,608**

In 2014 some companies of the Group acted as guaranteeing electricity suppliers: these companies purchased electricity on the wholesale market and sold it on the retail market.

Other revenue is comprised of electricity transmission assets rental income, repair and maintenance services, construction services, etc.

9 Other income, net

	Year ended 31 December 2015	Year ended 31 December 2014
Income from identified non-contracted electricity consumption	1,744	4,684
Income in the form of fines on commercial contracts	5,617	4,875
Gain on deconsolidation of subsidiaries	12,410	-
Net other income/expense	2,298	4,750
	22,069	**14,309**

Net other income/expense includes profit/loss on insurance reimbursement, on disposal of fixed assets and other items.

(in millions of Russian rubles, unless otherwise stated)

10 Operating expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Personnel costs (Note 11)	162,911	155,155
Depreciation and amortization (Notes 14, 15)	100,529	125,910
(Reversal of impairment)/ impairment of property, plant and equipment (Note 14)	(5,090)	81,690
Material expenses, including:		
Electricity for compensation of losses	101,199	92,098
Electricity for sale	30,662	46,834
Purchased electricity and heat power for own needs	3,539	3,402
Other material costs	27,158	25,273
Production work and services, including:		
Electricity transmission services	119,341	125,445
Repair and maintenance services	11,878	14,302
Other works and industrial services	10,449	4,637
Taxes and levies other than income tax	17,637	14,738
Rent	6,702	6,638
Insurance	2,302	2,548
Other third-party services, including:		
Communication services	2,978	3,068
Security services	4,498	4,841
Consulting, legal and audit services	2,287	2,173
Software costs and servicing	2,654	2,972
Transportation services	2,782	2,351
Other services	7,385	6,965
Impairment of receivables	28,778	18,872
Provisions (Note 26)	3,902	12,043
Other expenses	8,057	7,850
	652,538	**759,805**

(in millions of Russian rubles, unless otherwise stated)

11 Personnel costs

	Year ended 31 December 2015	**Year ended 31 December 2014**
Wages and salaries	123,639	117,831
Social security contributions	35,209	31,793
(Gains)/expenses related to defined benefit plan	(1,305)	435
Expenses/(gains) related to other long-term employee benefits	226	(141)
Other	5,142	5,237
	162,911	**155,155**

The amount of contributions to the defined contribution plan was RUB 24,869 million for the year ended 31 December 2015 (2014: RUB 23,274 million).

12 Finance income and costs

Recognized in profit or loss	**Year ended 31 December 2015**	**Year ended 31 December 2014**
Finance income		
Interest income on loans, bank deposits and promissory notes	15,440	10,054
Gain on disposal of financial assets	22	129
Other finance income	776	529
	16,238	**10,712**
Finance costs		
Interest expenses on financial liabilities measured at amortized cost	(34,607)	(23,804)
Interest expenses on finance lease liabilities	(94)	(169)
Impairment loss on available-for-sale and held-to-maturity financial assets	(450)	(16,633)
Other finance costs	(3,714)	(2,257)
	(38,865)	**(42,863)**

(in millions of Russian rubles, unless otherwise stated)

13 Income tax

	Year ended 31 December 2015	Year ended 31 December 2014
Current income tax		
Current year	(9,167)	(11,059)
Adjustments for prior years	2,987	1,899
	(6,180)	**(9,160)**
Deferred income tax		
Origination and reversal of temporary differences	(23,271)	4,183
Change in tax base of property, plant and equipment	(2,659)	(1,231)
	(25,930)	**2,952**
	(32,110)	**(6,208)**

The Group's applicable tax rate in 2015 and 2014 is the income tax rate of 20% for Russian companies. This rate has been used in the calculation of deferred tax assets and liabilities.

In 2015 and 2014, some Group companies recalculated income tax for prior periods related to the deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment and accelerated tax depreciation of property, plant and equipment operated in an aggressive environment. As a result, adjusted tax declarations were submitted to the tax authorities and income tax overprovided in prior periods was recognized.

Income tax recognized in other comprehensive income

	Year ended 31 December 2015			Year ended 31 December 2014		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Available-for-sale financial assets	7,825	(1,565)	6,260	125	(22)	103
Foreign currency translation differences	(151)	-	(151)	650	-	650
Remeasurements of the defined benefit liability	(5,186)	998	(4,188)	3,023	(499)	2,524
	2,488	**(567)**	**1,921**	**3,798**	**(521)**	**3,277**

(in millions of Russian rubles, unless otherwise stated)

13 Income tax (continued)

Reconciliation of the effective tax rate

	Year ended 31 December 2015	**%**	**Year ended 31 December 2014**	**%**
Profit/(loss) before income tax	**113,712**		**(18,049)**	
Income tax at the applicable tax rate	**(22,742)**	**(20)**	**3,610**	(20)
Effect of income taxed at lower rates	96	-	37	-
Non-deductible expenses	(5,698)	(5)	(10,328)	57
Change in tax base of property, plant and equipment	(2,659)	(2)	(1,231)	7
Adjustments for prior years	2,987	3	1,899	(11)
Unrecognized deferred tax assets	(4,094)	(4)	(195)	1
	(32,110)	**(28)**	**(6,208)**	**34**

(in millions of Russian rubles, unless otherwise stated)

14 Property, plant and equipment

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/Deemed cost						
At 1 January 2014	**194,650**	**880,859**	**714,926**	**217,584**	**448,229**	**2,456,248**
Reclassification between groups	(1,387)	1,553	(630)	464	-	-
Additions	1,281	4,822	1,432	5,463	246,078	259,076
Transfer	26,108	157,504	8 9,130	26,648	(299,390)	-
Disposals	(394)	(1,202)	(2,844)	(3,662)	(4,518)	(12,620)
At 31 December 2014	**220,258**	**1,043,536**	**802,014**	**246,497**	**390,399**	**2,702,704**
At 1 January 2015	**220,258**	**1,043,536**	**802,014**	**246,497**	**390,399**	**2,702,704**
Reclassification between groups	1,418	(1,102)	1,499	(1,815)	-	-
Additions	1,013	2,771	951	4,627	173,112	182,474
Additions on acquisition of subsidiaries	213	6,032	2,358	548	1,483	10,634
Transfer	15,832	89,194	81,417	19,100	(205,543)	-
Disposals	(1,086)	(1,875)	(3,120)	(2,277)	(6,844)	(15,202)
At 31 December 2015	**237,648**	**1,138,556**	**885,119**	**266,680**	**352,607**	**2,880,610**
Depreciation and impairment						
At 1 January 2014	**(39,991)**	**(341,171)**	**(283,301)**	**(107,747)**	**(88,176)**	**(860,386)**
Reclassification between groups	(376)	(12,893)	(8,065)	(1,404)	22,738	-
Depreciation charge	(8,597)	(47,034)	(42,510)	(22,920)	-	(121,061)
Disposals	125	599	1,725	2,166	(596)	4,019
Impairment	(11,347)	(33,897)	(20,974)	(3,464)	(12,008)	(81,690)
At 31 December 2014	**(60,186)**	**(434,396)**	**(353,125)**	**(133,369)**	**(78,042)**	**(1,059,118)**
At 1 January 2015	**(60,186)**	**(434,396)**	**(353,125)**	**(133,369)**	**(78,042)**	**(1,059,118)**
Reclassification between groups	(808)	(3,881)	(7,455)	(430)	12,574	-
Depreciation charge	(7,985)	(35,353)	(32,332)	(22,198)	-	(97,868)
Disposals	202	987	2,124	1,843	174	5,330
Impairment	2,475	667	1,592	514	(158)	5,090
At 31 December 2015	**(66,302)**	**(471,976)**	**(389,196)**	**(153,640)**	**(65,452)**	**(1,146,566)**
Net book value						
At 31 December 2014	**160,072**	**609,140**	**448,889**	**113,128**	**312,357**	**1,643,586**
At 31 December 2015	**171,346**	**666,580**	**495,923**	**113,040**	**287,155**	**1,734,044**

14 Property, plant and equipment (continued)

As at 31 December 2015, construction in progress includes advance payments for purchase of property, plant and equipment of RUB 13,660 million (31 December 2014: RUB 21,128 million).

Capitalized borrowing costs for the year ended 31 December 2015 amounted to RUB 29,831 million (for the year ended 31 December 2014: RUB 23,257 million), with capitalization rates of 7.93%-14.71% (for the year ended 31 December 2014: 7.25-12.5%).

As at 31 December 2015 and 31 December 2014 there are no fixed assets pledged as collateral for loans and borrowings (Note 23).

The portion of depreciation has been capitalized to the cost of the capital construction objects for the year ended 31 December 2015 and for the year ended 31 December 2014.

Impairment of property, plant and equipment

As the indicators of impairment were revealed, the Group performed an impairment test of the property, plant and equipment as at 31 December 2015 for the cash generating units (CGU) and recognized an impairment loss on property, plant and equipment in the amount of RUB 10,753 million (as at 31 December 2014: RUB 81,690 million), thus loss recognised as at 31 December 2014 and partially amortised was reversed in the amount of RUB 15,843 million.

Recoverable amount for all CGU's, as value in use, was calculated using the discounting rate, determined as the weighted average cost of capital (WACC) within the range of 9.50% - 11.31% (2014: 10.03%-12.60%).

(in millions of Russian rubles, unless otherwise stated)

15 Intangible assets

	Software	Licenses and certificates	Other intangible assets	Total intangible assets
Initial cost				
As of January 1, 2014	**16,557**	**283**	**7,848**	**24,688**
Additions	2,129	84	3,153	5,366
Disposals	(2,034)	(96)	(2,239)	(4,369)
As of December 31, 2014	**16,652**	**271**	**8,762**	**25,685**
As of January 1, 2015	**16,652**	**271**	**8,762**	**25,685**
Reclassification between groups	895	(10)	(885)	-
Additions	2,844	18	4,431	7,293
Disposals	(1,045)	(130)	(372)	(1,547)
As of December 31, 2015	**19,346**	**149**	**11,936**	**31,431**
Amortization and impairment				
As of January 1, 2014	**(5,658)**	**(195)**	**(2,278)**	**(8,131)**
Amortization charge	(4,540)	(36)	(428)	(5,004)
Disposals	1,099	86	565	1,750
As of December 31, 2014	**(9,099)**	**(145)**	**(2,141)**	**(11,385)**
As of January 1, 2015	**(9,099)**	**(145)**	**(2,141)**	**(11,385)**
Reclassification between groups	(288)	-	288	-
Amortization charge	(2,223)	(73)	(422)	(2,718)
Disposals	1,022	126	56	1,204
As of December 31, 2015	**(10,588)**	**(92)**	**(2,219)**	**(12,899)**
Net book value				
As of December 31, 2014	**7,553**	**126**	**6,621**	**14,300**
As of December 31, 2015	**8,758**	**57**	**9,717**	**18,532**

16 Other investments and financial assets

	31 December 2015	31 December 2014
Non-current		
Available-for-sale financial assets	22,215	14,019
Financial assets held to maturity	3,096	2,381
Assets related to employee defined benefits plans (Note 24)	6,617	6,552
	31,928	**22,952**
Current		
Financial assets held to maturity	36,777	17,908
	36,777	**17,908**

Available-for-sale non-current financial assets are mainly represented by the shares in PJSC Inter RAO UES. Fair value of these shares is based on published market quotations and amounted to RUB 21,480 million and RUB 13,759 million as at 31 December 2015 and 31 December 2014 respectively. For the year ended 31 December 2015, increase in the fair value of these available-for-sale financial investments is represented in other comprehensive income.

16 Other investments and financial assets (continued)

Financial assets held to maturity are mainly represented by bank deposits with an original maturity of more than three months were placed with a number of banks bearing an interest of 0.51%-11.5% per annum.

As at 31 December 2015 financial assets held to maturity include subordinated deposits placed at Bank Tavrichesky in the amount of RUB 12,700 million (as at 31 December 2014 – RUB 16,367 million). As at 31 December 2015, the provision for impairment of these financial investments amounted to RUB 10,416 million (as at 31 December 2014 – RUB 10,272 million).

The impairment provision was recognised as at 31 December 2014 OJSC Bank Tavrichesky faced liquidity problems. On 11 February 2015, external management procedure was initiated, and the Bank was taken into temporary administration of GK Deposit Insurance Agency (hereinafter, "ASV"). ASV is implementing an action plan to prevent the Bank from going into bankruptcy.

Currently ASV has full control over the process of financial recovery of Bank Tavrichesky. Bank Tavrichesky used the funds of GK Deposit Insurance Agency. It helps to improve the financial performance and reduce credit default risks. The analysis of the Bank's financial operations and statistical data for the year indicate the mitigation of negative trends that might impact the Bank's financial position in the future.

The Group's exposure to credit risk and impairment losses related to other investments and financial assets is disclosed in Note 27.

(in millions of Russian rubles, unless otherwise stated)

17 Deferred tax assets and liabilities

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		**Liabilities**		**Net**	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**	**31 December 2015**	**31 December 2014**
Property, plant and equipment	2,480	1,529	(69,779)	(47,565)	(67,299)	(46,036)
Intangible assets	436	470	(169)	(81)	267	389
Investments in associates and joint ventures	5,346	5,643	(1,561)	(336)	3,785	5,307
Inventories	585	750	(75)	(91)	510	659
Trade and other receivables and prepayments	10,951	9,396	(1,348)	(3,246)	9,603	6,150
Finance lease liabilities	133	501	-	-	133	501
Loans and borrowings	-	8	(394)	(284)	(394)	(276)
Provisions	4,575	4,699	(21)	-	4,554	4,699
Employee benefits	3,041	2,595	(48)	(208)	2,993	2,387
Trade and other payables	2,843	2,688	(125)	(51)	2,718	2,637
Tax loss carry-forwards	3,671	5,283	-	-	3,671	5,283
Other	553	979	(641)	(310)	(88)	669
Tax assets/(liabilities)	**34,614**	**34,541**	**(74,161)**	**(52,172)**	**(39,547)**	**(17,631)**
Set-off of tax	(14,006)	(17,783)	14,006	17,783	-	-
Unrecognized deferred tax assets	(12,029)	(9,641)	-	-	(12,029)	(9,641)
Net tax assets/(liabilities)	**8,579**	**7,117**	**(60,155)**	**(34,389)**	**(51,576)**	**(27,272)**

(b) Unrecognized deferred tax liabilities

At 31 December 2015, a deferred tax liability for temporary differences of RUB 111,502 million (31 December 2014: RUB 98,993 million) related to an investment in subsidiaries was not recognized because the Group is able to control the timing of the reversal of this temporary difference and it is probable that this temporary difference will not reverse in the foreseeable future.

(in millions of Russian rubles, unless otherwise stated)

17 Deferred tax assets and liabilities (continued)

(c) Unrecognized deferred tax assets

Deferred tax assets have not been recognized with respect to the following:

	31 December 2015	31 December 2014
Deductible temporary differences	45,541	31,975
Tax losses	14,607	16,231
Total	**60,148**	**48,206**
Unrecognized deferred tax assets at the applicable tax rate	**12,029**	**9,641**

The deductible temporary differences do not expire under current tax legislation. Tax losses may be carried forward and utilized for up to 10 years. Deferred tax assets have not been recognized with respect to tax losses and temporary differences because it is not probable that future taxable profit will be available, against which the loss-making Group's companies can utilize the relevant temporary differences and tax losses.

As at 31 December 2015 the amount of accumulated tax losses of the Group incurred during the period from 2005 to 2015, is RUB 18,360 million.

(d) Movement in temporary differences during the year

	1 January 2015	Additions on acquisition of subsidiaries	Recognized in profit or loss	Recognized in other comprehensive income	Disposal of subsidiaries	31 December 2015
Property, plant and equipment	(46,036)	3,009	(24,213)	-	(59)	(67,299)
Intangible assets	389	-	(122)	-	-	267
Investments in associates and joint ventures	5,307	(52)	98	(1,565)	(3)	3,785
Inventories	659	(10)	(147)	-	8	510
Trade and other receivables and prepayments	6,150	8	3,509	-	(64)	9,603
Finance lease liabilities	501	-	(368)	-	-	133
Loans and borrowings	(276)	(124)	6	-	-	(394)
Provisions	4,699	(42)	(51)	-	(52)	4,554
Employee benefits	2,387	-	(392)	998	-	2,993
Trade and other payables	2,637	(70)	140	-	11	2,718
Tax loss carry-forwards	5,283	-	15	-	(1,627)	3,671
Other	669	(446)	(311)	-	-	(88)
Unrecognized deferred tax assets	(9,641)	-	(4,094)	-	1,706	(12,029)
	(27,272)	**2,273**	**(25,930)**	**(567)**	**(80)**	**(51,576)**

(in millions of Russian rubles, unless otherwise stated)

17 Deferred tax assets and liabilities (continued)

(d) Movement in temporary differences during the year (continued)

	1 January 2014	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2014
Property, plant and equipment	(47,860)	1,824	-	(46,036)
Intangible assets	572	(183)	-	389
Investments in associates and joint ventures	3,504	1,825	(22)	5,307
Inventories	538	121	-	659
Trade and other receivables and prepayments	7,910	(1,760)	-	6,150
Finance lease liabilities	649	(148)	-	501
Loans and borrowings	(296)	20	-	(276)
Provisions	1,434	3,265	-	4,699
Employee benefits	3,503	(617)	(499)	2,387
Trade and other payables	2,362	275	-	2,637
Tax loss carry-forwards	6,500	(1,217)	-	5,283
Other	927	(258)	-	669
Unrecognized deferred tax assets	(9,446)	(195)	-	(9,641)
	(29,703)	**2,952**	**(521)**	**(27,272)**

18 Inventories

	31 December 2015	31 December 2014
Raw materials and supplies	16,283	13,786
Allowance for impairment of raw materials and supplies	(540)	(380)
Other inventories	18,245	13,476
Allowance for impairment of other inventories	(67)	(252)
Net book value	**33,921**	**26,630**

(in millions of Russian rubles, unless otherwise stated)

19 Trade and other receivables

	31 December 2015	31 December 2014
Non-current accounts receivable		
Trade receivables	11,100	893
Trade receivables impairment allowance	(1,411)	(43)
Other receivables	298	350
Loans given	1,312	141
Allowance for non-current loans given	(162)	-
Total financial assets	**11,137**	**1,341**
Advances given	7,728	14,591
Advances given impairment allowance	(4,838)	(10,992)
VAT recoverable	2,545	2,031
	16,572	**6,971**
Current accounts receivable		
Trade receivables	194,641	166,924
Trade receivables impairment allowance	(73,149)	(53,511)
Other receivables	21,736	21,712
Other receivables impairment allowance	(8,066)	(7,356)
Loans given	163	706
Allowance for current loans given	(13)	-
Total financial assets	**135,312**	**128,475**
Advances given	17,490	8,612
Advances given impairment allowance	(4,829)	(1,433)
VAT recoverable	14,254	19,571
Prepaid taxes, other than income tax and VAT	397	551
	162,624	**155,776**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 27.

(in millions of Russian rubles, unless otherwise stated)

20 Cash and cash equivalents

	31 December 2015	31 December 2014
Cash in state-controlled banks	50,490	39,515
Cash in banks not controlled by state	2,250	7,812
Deposits in state-controlled banks	44,196	35,002
Deposits in other banks	29	94
Cash equivalents	125	153
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**97,090**	**82,576**

Cash equivalents primarily consist of bank deposits placed with a number of banks for less than three months bearing an interest of 6.87%-11.4% per annum.

21 Equity

(a) Share capital

Number of shares unless otherwise stated	**Ordinary shares**		**Preference shares**	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Par value	RUB 1	RUB 1	RUB 1	RUB 1
On issue at 1 January	161,078,853,310	161,078,853,310	2,075,149,384	2,075,149,384
On issue at end of year, fully paid	161,078,853,310	161,078,853,310	2,075,149,384	2,075,149,384

(b) Ordinary and preference shares

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

Holders of preference shares are entitled to an annual dividend equal to 10% of net statutory profit divided by 25% of all shares. If the amount of dividends paid by the Company for each ordinary share in a given year exceeds the amount payable as a dividend on each preference share, the dividend rate payable on the latter must be increased to the amount of dividends on ordinary shares.

21 Equity (continued)

(b) Ordinary and preference shares (continued)

Preference shares carry the right to vote on all issues within the competence of general shareholders' meetings following the Annual Shareholders' Meeting at which a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at general shareholders' meetings ceases from the date of the first full payment of dividends on such shares. The dividend is not cumulative, however. The preference shares also carry the right to vote, but this right is limited according to the amendments of the Company Charter, which include reorganization and liquidation.

In the event of liquidation, preference shareholders receive any declared unpaid dividends and the par value of the preference shares. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

(c) Issue of additional shares

On 6 October 2015 the Extraordinary General Meeting of Shareholders of the Company approved an increase in the Company's charter capital through issuance of 42,796,991,468 additional ordinary shares with a par value of 1 rouble each under an open subscription. The offering price was determined at 1 roubles per share. Funds for the issue of shares at 31 December 2015, in the amount of RUB 33,473 million were recognised as reserve for issue of shares in equity. As at 31 December 2015, the changes to the Charter are not registered.

(d) Changes in ownership interests of subsidiaries

Shares issued by subsidiaries

On 24 November 2015, an Extraordinary General Meeting of Shareholders of PJSC Lenenergo, the Group's subsidiary, approved an increase in charter capital through the issuance of additional 18,882,455,451 ordinary shares with a par value of RUB 1 each under an open subscription. The approved offering price was RUB 6.99. In 2015, 4,660,980,974 shares were acquired by the Group, 2,179,903,032 shares were acquired by the city of St. Petersburg represented by the Committee of property relations. The Group has made payment of shares Federal loan bonds issued in the amount of RUB 32,000 million and cash RUB 580 million. Additional capital of RUB 15,091 million attributable to non-controlling shareholders was recognized as non-controlling interest as at 31 December 2015. As a result of the subscription of shares the Group's ownership interest in PJSC Lenenergo increased from 67.55% to 68.01%.

On 27 November 2015, an Extraordinary General Meeting of Shareholders of PJSC IDGC of Volga, the Group's subsidiary, approved an increase in charter capital through the issuance of an additional 10,685,233,931 ordinary shares with a par value of RUB 0.1 each under an open subscription. The approved offering price was RUB 0.1. In 2015, 668,600,000 shares were subscribed by the Company for RUB 67 million paid in cash. The Group recognized an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 12 million. As a result of the subscription of shares the Group's ownership interest in PJSC IDGC of Volga increased from 67.63% to 67.75%.

21 Equity (continued)

(e) Dividends

In accordance with Russian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

At the annual shareholders meeting held on 30 June 2014, the decision was made not to declare dividends for ordinary and preference shares according to the results of 2013.

On 30 June 2015 the General Shareholders Meeting of the Company decided not to declare dividends on preference and common shares of the Company for 2014. During 2015 no dividends were declared or paid by the Company either.

Information regarding treasury shares is presented below:

31 December 2015			31 December 2014		
Number of shares, mln.		Book value, mln. RUB	Number of shares, mln.		Book value, mln. RUB
Ordinary	Preference		Ordinary	Preference	
1,488	308	2,713	1,491	308	2,725

22 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for 2015 was based on the earnings attributable to ordinary shareholders of RUB 64,036 million (31 December 2014: loss of RUB 15,355 million), and a weighted average number of ordinary shares outstanding of 159,591 million (31 December 2014: 159,588 million), calculated as shown below. The Company has no dilutive financial instruments.

In millions of shares	**2015**	**2014**
Issued shares at 1 January	**161,079**	**161,079**
Effect of treasury shares	(1,488)	(1,491)
Weighted average number of shares for the year ended 31 December	**159,591**	**159,588**

	Year ended 31 December 2015	**Year ended 31 December 2014**
Weighted average number of ordinary shares for the year ended 31 December (millions of shares)	159,591	159,588
Total loss attributable to holders of ordinary shares	64,036	(15,355)
Earnings/(loss) per ordinary share (in RUB) – basic and diluted	**0.401**	**(0.096)**

(in millions of Russian rubles, unless otherwise stated)

23 Loans and borrowings

	31 December 2015	31 December 2014
Non-current liabilities		
Unsecured loans	220,999	253,091
Unsecured bonds	344,422	300,842
Finance lease liabilities	663	909
Less: current portion of long-term finance lease liabilities	(146)	(225)
Less: current portion of long-term loans	(54,036)	(20,598)
Less: current portion of long-term bonds	(46,463)	(48,610)
	465,439	**485,409**
Current liabilities		
Unsecured loans	17,828	23,431
Promissory notes	359	363
Current portion of long-term finance lease liabilities	146	225
Current portion of long-term loans	54,036	20,598
Current portion of long-term bonds	46,463	48,610
	118,832	**93,227**

(in millions of Russian rubles, unless otherwise stated)

23 Loans and borrowings (continued)

	Currency	Year of maturity	31 December 2015 Nominal interest rate	31 December 2014 Nominal interest rate	31 December 2015 Face value	31 December 2015 Carrying value	31 December 2014 Face value	31 December 2014 Carrying value
Unsecured loans								
Unsecured bank loans *	RUB	2016-2019	7.01-13.25%	7.00-12.60%	161,118	161,335	175,533	173,360
Unsecured bank loans *	RUB	2016-2018	7.66-13.20%	7.11-23.00%	30,447	30,486	30,894	30,894
Unsecured bank loans *	RUB	2016-2019	7.64-15.00%	7.64-20.00%	15,835	15,890	29,709	29,495
Unsecured bank loans	RUB	2017	11.50-11.80%	8.25-11.80%	8,600	8,616	11,020	11,020
Unsecured bank loans	RUB	2016-2017	8.75-15.50%	8.75-17.00%	7,328	7,330	10,164	10,164
Unsecured bank loans	RUB	2016-2020	11.90-15.00%	-	4,169	4,183	-	-
Unsecured bank loans *	RUB	2018-2019	11.00%-16.50%	7.92-9.00%	3,003	3,003	3,404	3,404
Unsecured bank loans *	RUB	2018	Key rate of CB RF + 1,5-1,6%	-	2,835	2,839	-	-
Unsecured bank loans	RUB	2017-2018	11.34-12.90%	7.85-11.67%	1,924	1,924	4,356	4,356
Unsecured bank loans *	RUB	2017	10.92-14.90%	10.92-14.00%	1,003	1,003	5,005	5,005
Unsecured bank loans	RUB	2017	13.00%	11.29-11.40%	899	901	3,761	3,451
Unsecured bank loans	RUB	2016-2017	12.70-13.50%	9.70-11.00%	634	634	400	400
Unsecured bank loans	RUB	2016-2021	8.28-14.54%	8.28-12.75%	326	329	639	639
Unsecured bank loans	RUB	2016-2018	12.50-16.00%	11.00-14.00%	232	232	822	822
Unsecured bank loans	RUB	2016-2017	12.90 - 20.00%	-	11	11	-	-
Unsecured bank loans	RUB	2015	-	11.85%	-	-	2,000	2,000
Unsecured bank loans	RUB	2015	-	16.08%	-	-	1,500	1,500
Unsecured bank loans	RUB	2015	-	13.50%	-	-	83	83
Unsecured loans	RUB	2016-2025	0.00-3.00%	0.00-10.00%	156	111	13	13
Unsecured loans *	RUB	2015			-	-	46	46
					238,520	**238,827**	**279,349**	**276,522**
Promissory notes								
Promissory notes	RUB	On demand	0%	0%	359	359	363	363
					359	**359**	**363**	**363**

(in millions of Russian rubles, unless otherwise stated)

	Currency	Year of maturity	31 December 2015 Nominal interest rate	31 December 2014 Nominal interest rate	31 December 2015 Face value	31 December 2015 Carrying value	31 December 2014 Face value	31 December 2014 Carrying value
Bonds								
Unsecured bonds	RUB	2022-2048	(CPI[1]-100%) +1.00% - (CPI-100%) + 2.50%	(CPI-100%) +1.00% - (CPI-100%) + 2.50%	110,000	112,542	110,000	111,383
Unsecured bonds	RUB	2016-2028	7.95-8.75%	7.95-10.30%	100,000	77,170**	110,000	87,305**
Unsecured bonds	RUB	2017-2020	7.50-8.25%	7.50-8.25%	50,000	32,226**	50,000	45,685**
Unsecured bonds	RUB	2045-2050	(CPI-100%) +1.00%	-	40,000	41,043	-	-
Unsecured bonds	RUB	2018-2045	10.29-11.90%	-	31,000	31,238	-	-
Unsecured bonds	RUB	2019	8.45%	8.45%	17,500	17,943	17,500	17,943
Unsecured bonds	RUB	2016-2018	8.50-13.20%	8.50-11.00%	17,000	17,437	20,512	20,498
Unsecured bonds	RUB	2016-2017	8.25-17.00%	8.25-8.50%	6,000	6,153	6,103	6,095
Unsecured bonds	RUB	2020-2025	11.80%	8.95%	5,000	5,053	4,076	4,072
Unsecured bonds	RUB	2016	8.40%	8.40%	3,000	3,106	3,106	3,106
Unsecured bonds	RUB	2024	8.00%	9.30%	737	511	1,082	740
Unsecured bonds	RUB	2015	-	9.15%	-	-	4,015	4,015
					380,237	**344,422**	**326,394**	**300,842**
Financial lease liabilities	RUB	2016	9.50-25.20%	8%	**663**	**663**	**909**	**909**
Total debt					**621,144**	**584,271**	**607,015**	**578,636**

* Loans from state-controlled entities.
** Carrying value differs due to redemption of some bond issues as of 31 December 2014 and 31 December 2015

[1] Consumer price index - CPI

(in millions of Russian rubles, unless otherwise stated)

23 Loans and borrowings (continued)

The nominal interest rate is the current market interest rate. The Group has not entered into any hedging arrangements with respect to interest rate exposures.

For more information about the Group’s exposure to interest rate risk, see Note 27.

Unused credit lines amounted to RUB 201,269 million at 31 December 2015 (RUB 182,352 million as at 31 December 2014).

Financial lease liabilities are payable as follows:

	31 December 2015			**31 December 2014**		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	208	62	146	317	92	225
Between one and five years	558	74	484	763	142	621
More than five years	38	5	33	70	7	63
	804	**141**	**663**	**1,150**	**241**	**909**

The financial lease liabilities are secured by leased assets.

24 Employee benefits

The Group has a defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of several unfunded plans providing for lump-sum payments upon retirement, financial support for current pensioners, death benefits, and anniversary benefits.

The table below summarizes the amounts of defined benefit obligations recognized in the financial statements.

Amounts recognized in the consolidated statement of financial position:

	31 December 2015	**31 December 2014**
Present value of post-employment benefits obligation	28,231	24,544
Present value of other long-term employee benefit obligation	1,242	968
Total present value of employee benefit obligation	**29,473**	**25,512**

(in millions of Russian rubles, unless otherwise stated)

24 Employee benefits (continued)

Change in the value of assets related to employee benefit obligations:

	Year ended 31 December 2015	Year ended 31 December 2014
Value of assets at 1 January	**6,552**	**6,716**
Return on plan assets	341	316
Employer contributions	2,014	1,788
Other movements in the accounts	15	(131)
Payment of remuneration	(2,305)	(2,137)
Value of assets at 31 December	**6,617**	**6,552**

Assets related to pension plans and defined benefit plans are administrated by non-state pension funds NPF Eletroenergetiki and Professionalny. These assets are not the defined benefit plans' assets, because under the terms of agreements between the Group and the funds the Group has the right to use the contributions paid under defined benefit plans to fund its defined contribution pension plans or transfer to another fund on the Group’s own initiative.

Movements in the net defined benefit liability are as follows:

	Year ended 31 December 2015		Year ended 31 December 2014	
	Post-employment benefits obligation	Other long-term employee benefit obligation	Post-employment benefits obligation	Other long-term employee benefit obligation
Defined benefit plan obligations as at the beginning of the year	**24,544**	**968**	**27,883**	**1,088**
Current service cost	1,367	92	1,566	108
Past service cost	(2,753)	(9)	(1,222)	(17)
Interest cost	2,639	101	1,961	73
Remeasurement of the defined benefit liability arising from:				
– Actuarial loss arising from demographic assumptions	(135)	(1)	544	15
– Actuarial gain arising from financial assumptions	3,911	146	(3,869)	(145)
– Actuarial loss/ (gain) arising from experience adjustment	1,410	81	302	(11)
Benefits paid	(2,752)	(136)	(2,621)	(143)
Defined benefit plan obligations as at the end of the year	**28,231**	**1,242**	**24,544**	**968**

(in millions of Russian rubles, unless otherwise stated)

24 Employee benefits (continued)

Amounts recognized in profit or loss are as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Service cost	(1,303)	435
Remeasurement of other long-term employee benefit obligation	226	(141)
Interest expenses	2,740	2,034
Total expenses recognized in profit or loss	**1,663**	**2,328**

Amounts recognized in other comprehensive income are as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Actuarial loss arising from demographic assumptions	(135)	544
Actuarial gain arising from financial assumptions	3,911	(3,869)
Actuarial loss arising from experience adjustment	1,410	302
Total actuarial (gain)/loss recognized in other comprehensive income	**5,186**	**(3,023)**

Movements in remeasurement of employee benefit obligation that was recognized in other comprehensive income during the year are as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Remeasurements at 1 January	**7,658**	**10,681**
Movement for the period	5,186	(3,023)
Remeasurements at 31 December	**12,844**	**7,658**

(in millions of Russian rubles, unless otherwise stated)

24 Employee benefits (continued)

The significant actuarial assumptions are as follows:

	31 December 2015	31 December 2014
Financial actuarial assumptions		
Discount rate, annual (nominal)	9,5%	12%
Future inflation rate	6%	7%
Future salary increase (nominal)	6%	7%
Demographic actuarial assumptions		
Expected age of retirement:		
Men	60	60
Women	55	55
Average level of staff movement	6,3%	6.5%

A sensitivity of employee benefits obligation to changes in significant actuarial assumptions is as follows:

	Change in the assumption	Impact on obligation
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 3,79%
Future salary growth	Increase/decrease by 0.5%	Increase/decrease by 1,95%
Future growth of benefits (inflation)	Increase/decrease by 0.5%	Increase/decrease by 2,08%
Average level of staff movement	Increase/decrease by 10%	Decrease/increase by 1,68%
Mortality	Increase/decrease by 10%	Decrease/increase by 0,82%

	31 December 2015	31 December 2014
Defined benefit liability	(29,473)	(25,512)
Assets related to the employee benefit plans	6,617	6,552
Total	**22,856**	**(18,960)**

Expected payments under the defined long-term benefit plans to employees in 2016 are RUB 3,172 million, including:

- RUB 3,014 million under the defined benefit plans (including non-state pension schemes);
- RUB 158 million under the other long-term employee benefit schemes.

(in millions of Russian rubles, unless otherwise stated)

25 Trade and other payables

	31 December 2015	31 December 2014
Non-current accounts payable		
Trade payables	180	331
Other payables	224	204
Total financial liabilities	**404**	**535**
Advances from customers	21,671	17,316
	22,075	**17,851**
Current accounts payable		
Trade payables	142,610	162,850
Other payables and accrued expenses	15,761	9,970
Payables to employees	17,355	16,297
Dividends payable	589	81
Total financial liabilities	**176,315**	**189,198**
Advances from customers	74,783	67,041
	251,098	**256,239**
Taxes payable		
Value-added tax	9,008	5,776
Property tax	3,731	2,706
Social security contributions	2,862	2,565
Other taxes payable	1,273	1,183
	16,874	**12,230**
	267,972	**268,469**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 25.

26 Provisions

	2015	2014
Balance at 1 January	**18,871**	**10,397**
Provisions accrued during the year	10,744	15,310
Provisions reversed during the year	(6,815)	(3,174)
Provisions used during the year	(11,379)	(3,662)
Balance at 31 December	**11,421**	**18,871**

Provisions relate to legal proceedings and unsettled claims against the Group in the day-to-day terms of business.

27 Financial risk management

(a) Overview

The Group is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

The Group's principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

The Group's risk management policies deal with identifying and analyzing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group monitors existing debt on a regular basis and taking steps to collect the debt and to mitigate losses.

To manage credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is stipulated by a contract and depends on the amount of capacity to be connected.

The Group does not require collateral with respect to trade and other receivables and other financial assets.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses with respect to trade and other receivables that relate to individually significant exposures.

(in millions of Russian rubles, unless otherwise stated)

27 Financial risk management (continued)

Exposure to credit risk

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

	Carrying amount	
	31 December 2015	**31 December 2014**
Promissory notes	354	3,086
Pai	608	-
Loans and receivables	146,449	129,816
Bank deposits, cash and cash equivalents	136,001	110,051
	283,412	**242,953**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	31 December 2015	**31 December 2014**
North-West region	21,269	22,679
Central region	57,574	40,991
Ural and Volga region	21,058	20,930
South region	16,748	15,496
Siberian region	14,411	13,997
Other regions	121	170
	131,181	**114,263**

The Group’s ten most significant debtors account for RUB 40,061 million of the trade receivables carrying amount at 31 December 2015 (2014: RUB 27,110 million).

Impairment losses of trade and other receivables

The aging of receivables at the reporting date was:

	Gross	**Impairment**	**Gross**	**Impairment**
	31 December 2015	**31 December 2015**	**31 December 2014**	**31 December 2014**
Not past due	88,079	(1,195)	77,004	(3,805)
Past due less than 3 months	26,508	(4,112)	28,496	(2,451)
Past due more than 3 months and less than 6 months	11,158	(3,286)	12,837	(3,246)
Past due more than 6 months and less than 1 year	26,629	(9,628)	20,039	(7,485)
Past due more than 1 year	75,401	(64,405)	51,503	(43,923)
	227,775	**(82,626)**	**189,879**	**(60,910)**

(in millions of Russian rubles, unless otherwise stated)

27 Financial risk management (continued)

The movement in the allowance for impairment with respect to trade and other receivables during the year was as follows:

	2015	2014
Balance at 1 January	**(60,910)**	**(45,667)**
Increase during the period	(44,015)	(28,874)
Allowance utilized	4,452	3,042
Decrease due to reversal	17,847	10,589
Balance at 31 December	**(82,626)**	**(60,910)**

The allowance accounts with respect to trade and other receivables and bank deposits are used to record impairment losses, unless the Group is satisfied that no recovery of the amount owned is possible; at that point the amount is considered irrecoverable and written off against the financial asset directly.

Impairment of receivables

	31 December 2015	31 December 2014
Not overdue, not impaired receivables	80,317	73,199
Not overdue impaired receivables	7,949	3,805
Overdue, not impaired receivables	55,578	55,770
Overdue impaired receivables	83,931	57,105
	227,775	**189,879**

The Group analyzed that not impaired past due accounts receivable are recoverable with the high level of probability.

(c) Liquidity risk

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

Management of liquidity risk involves maintaining sufficient cash and the availability of financial resources by securing credit lines. The Group adheres to a balanced model of financing working capital by using both short-term and long-term sources. Basically temporarily free funds invested in the short-term financial instruments such as Bank deposits.

The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

As stated in Note 23 the unused credit lines of Group amounted to RUB 201,269 million at 31 December 2015 (31 December 2014: RUB 182,352 million). The Group has opportunity to attract additional financing within the corresponding limits, including for the purpose of execution of the short-term obligations.

(in millions of Russian rubles, unless otherwise stated)

27 Financial risk management (continued)

The contractual maturities of financial liabilities presented, including estimated interest payments and excluding the impact of netting agreements:

31 December 2015

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	238,827	279,230	88,547	82,263	103,653	4,452	38	277
Bond issued	344,422	661,449	76,151	53,023	49,391	33,642	51,363	397,879
Promissory notes	359	359	359	-	-	-	-	-
Finance lease	663	804	208	175	333	25	25	38
Trade and other payables	176,719	175,472	175,055	305	3	69	3	37
	760,990	**1,117,314**	**340,320**	**135,766**	**153,380**	**38,188**	**51,429**	**398,231**

31 December 2014

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	276,522	339,869	67,377	105,507	84,907	76,406	925	4,746
Bond issued	300,842	494,494	81,620	53,008	42,819	32,020	26,988	258,039
Promissory notes	363	363	363	-	-	-	-	-
Finance lease	909	1,150	317	213	181	339	30	70
Trade and other payables	189,733	188,197	187,128	619	241	31	21	157
	768,369	**1,024,073**	**336,805**	**159,347**	**128,148**	**108,796**	**27,964**	**263,012**

27 Financial risk management (continued)

(d) Market risk

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

(i) Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates.

The majority of the Group's revenues and expenditures, monetary assets and liabilities are denominated in RUB, and as such financial results are insignificantly impacted by changes in exchange rates.

(ii) Interest rate risk

The Group obtains borrowings mostly at fixed rates and is subject to a limited risk of changes in interest rates.

Management does not have a formal policy for determining how much of the Group's exposure should be to fixed or variable rates. However, when making a decision about new loans and borrowings, management gives priority to loans and borrowings with fixed rates. As a rule, loan agreements entered into by the Group do not contain any charges for the early repayment of loans on the borrower's initiative, which facilitates additional flexibility in relation to optimizing interest rates in the current economic environment.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

As at 31 December 2015 variable rate financial liabilities of the Group were RUB 156,424 million (31 December 2014: 111,383 million). A reasonably possible change of 100 basis points in interest rates at 31 December 2015 would have increased (decreased) equity and profit or loss (net of taxes) by RUB 1 223 million (2014: RUB 880 million) . This analysis assumes that all other variables remain constant and interest expenses are not capitalized.

(iii) Other market price risk

Equity price risk arises from available-for-sale equity securities. Management of the Group monitors its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by Management. As at 31 December 2015, available-for-sale investments exposed to equity price risk of the Group were RUB 22,215 million (31 December 2014: RUB 14,019 million).

(in millions of Russian rubles, unless otherwise stated)

27 Financial risk management (continued)

(e) Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

		31 December 2015		31 December 2014	
	Note	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Loans and receivables	19	146,449	146,449	129,816	129,816
Available-for-sale financial assets	16	22,215	22,215	14,019	14,019
Financial assets held to maturity	16	39,873	39,873	20,289	20,289
Bank deposits, cash and cash equivalents	20	97,090	97,090	82,576	82,576
Loans and borrowings	23	(584,271)	(555,839)	(578,636)	(510,196)
Trade and other payables	25	(176,719)	(176,719)	(189,733)	(189,733)
		(455,363)	**(426,931)**	**(521,669)**	**(453,229)**

The basis for determining the disclosed fair values is described in Note 4 and below.

The interest rate used to discount estimated cash flows for non-current and current debt for the determination of fair value as at 31 December 2015 was 12.94-14.58% (31 December 2014: 12.20%).

(f) Fair value hierarchy

The table below analyses loans and borrowings carried at fair value by hierarchy level.

	Level 1	**Level 2**	**Level 3**	**Итого**
31 December 2015				
Loans and borrowings	127,442	82,970	37,835	248,247
	127,442	**82,970**	**37,835**	**248,247**
31 December 2014				
Loans and borrowings	139,123	98,196	130,888	368,207
	139,123	**98,196**	**130,888**	**368,207**

(in millions of Russian rubles, unless otherwise stated)

27 Financial risk management (continued)

(f) Fair value hierarchy (continued)

The fair value of other loans and borrowings is equal their carrying amount.

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

	Level 1	Total
31 December 2015		
Available-for-sale financial assets	22,215	22,215
	22,215	**22,215**
31 December 2014		
Available-for-sale financial assets	14,019	14,019
	14,019	**14,019**

The table below analyzes the movement of financial instruments carried at fair value during the year:

	Available-for-sale financial assets
Balance at 1 January 2015	**14,019**
Additions	112
Additions on acquisition of subsidiaries	263
Impairment loss	(4)
Change in fair value recognized in other comprehensive income	7,825
Balance at 31 December 2015	**22,215**

(g) Capital management

The Group's debt-to-capital ratio at the end of the reporting period was as follows:

	31 December 2015	31 December 2014
Total liabilities	976,862	945,275
Less: cash and cash equivalents	(97,090)	(82,576)
Net debt	**879,772**	**862,699**
Total equity	1,168,894	1,038,804
Debt-to-equity ratio at 31 December	**75.27%**	**83.05%**

There were no significant changes in the Group's approach to capital management during the year.

(in millions of Russian rubles, unless otherwise stated)

27 Financial risk management (continued)

(g) Capital management (continued)

Capital management the Group aims to comply with capital requirements established by the legislation of the Russian Federation regulating the activities of joint stock companies, including requirements of capital adequacy, according to which the value of its net assets, determined in accordance with Russian Accounting Principles (RAP), must exceed the amount of the authorized capital. As of 31 December 2015 the Company's net assets, as determined in accordance with the Russian Accounting Principles (RAP), are below its charter capital. The Company takes necessary actions for keeping net assets in the amount not less than the charter capital.

28 Operating leases

The Group leases a number of land plots owned by local governments under operating leases. In addition, the Group leases non-residential premises and vehicles.

Land leases were entered into in prior periods and consist of land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 5 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

The land title does not pass and the landlord retains control over land usage. The Group determined that since all of the substantial risks and rewards of the land plots are with the landlord, the leases are considered to be operating leases.

Non-cancellable operating lease rentals are payable as follows:

	31 December 2015	**31 December 2014**
Less than one year	4,966	5,551
Between one and five years	9,922	10,039
More than five years	40,249	49,572
	55,137	**65,162**

In 2015, RUB 6,702 million was recognized in the consolidated statement of profit or loss and other comprehensive income with respect to operating leases (2014: RUB 6,638 million).

29 Capital commitments

As at 31 December 2015, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment for RUB 264,696 million (as at 31 December 2014: RUB 264,092 million).

30 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a state of development, and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption or third-party liability with respect to property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position. Based on previous experience the Group does not expect any significant insurance losses in the foreseeable future.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements, and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has adequately provided for tax assets and liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and have an effect on these consolidated financial statements if the authorities were successful in enforcing their interpretations.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of Management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group except accrued provisions (Note 26).

(d) Environmental matters

The Group and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Group Management periodically evaluates its obligations under environmental regulations.

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

(in millions of Russian rubles, unless otherwise stated)

30 Contingencies (continued)

(e) Guarantees

As at 31 December 2015 the Company acts as guarantor for its subsidiaries: PJSC "IDGC of Centre", PJSC "IDGC of Centre and Volga region", JSC "Yantarenergo" to the company LLC "Infrastructure investment - 3". The subject of the guarantee is fulfilment of the obligations under lease agreements, the total guarantee amounts to RUB 11,556 million.

31 Related party transactions

(a) Control relationships

The Russian Federation holds the majority of the voting interest of the Company. It is the ultimate controlling party of the Group.

(b) Management remuneration

The Group identifies members of the Management Board and Board of Directors of the Company as key management personnel. The remuneration for members of the Management Board and Board of Directors consists of the salary stipulated by the employment contract, non-monetary benefits, bonuses determined based on the results for the period, and other payments. Remuneration or compensation is not payable to members of the Board of Directors who are government employees.

There are no transactions or balances with key management and close family members, except for their remuneration in the form of salary and bonuses.

Key management received the following remuneration during the year, which is included in personnel costs:

	Year ended 31 December 2015	**Year ended 31 December 2014**
Salaries and bonuses	419	549
Post employment benefits	4	3
Total	**423**	**552**

31 Related party transactions (continued)

(c) Transactions with government-related entities

In the course of its operating activities, the Group is also engaged in significant transactions with state-controlled entities. Revenues and purchases from state-controlled entities are measured at regulated tariffs where applicable; in other cases, revenues and purchases are measured at normal market prices.

Revenues from state-controlled entities for the year ended 31 December 2015 constitute 42% (2014: 35%) of total Group revenues, including 44% (2014: 40%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for state-controlled entities for the year ended 31 December 2015 constitute 31% (2014: 36%) of total transmission costs.

Significant loans from state-controlled entities are disclosed in Note 23.

Cash in state controlled banks is disclosed in Note 20.

(d) Pricing policies

Related party revenue for electricity transmission is based on the tariffs determined by the government.

32 Events after the reporting date

During January - April 2016 the Group repaid bonds with a total nominal value of RUB 14 billion.