



**RSM RUS LTD**

4 Pudovkina street,  
Moscow, 119285, Russia  
T: +7 495 363 2848  
F: +7 495 9814121  
E: [mail@rsmrus.ru](mailto:mail@rsmrus.ru)  
[www.rsmrus.ru](http://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**

Independent auditor's report	3
Consolidated statement of profit or loss and other comprehensive income	5
Consolidated statement of financial position	6
Consolidated statement of cash flows	8
Consolidated statement of changes in equity	10
Notes to consolidated financial statements	
1 Background	12
2 Basis of preparation of consolidated financial statements	13
3 Significant accounting policies	15
4 Measurement of fair values	31
5 Significant subsidiaries	32
6 Non-controlling interests	36
7 Information about segments	38
8 Revenue	44
9 Other income, net	44
10 Operating expenses	45
11 Personnel costs	46
12 Finance income and costs	46
13 Income tax	47
14 Property, plant and equipment	49
15 Intangible assets	51
16 Other investments and financial assets	51
17 Deferred tax assets and liabilities	53
18 Inventories	55
19 Trade and other receivables	56
20 Cash and cash equivalents	57
21 Equity	57
22 Earnings/(loss) per share	59
23 Loans and borrowings	60
24 Employee benefits	63
25 Trade and other payables	67
26 Provisions	67
27 Financial risk and capital management	68
28 Operating leases	75
29 Capital commitments	75
30 Contingencies	76
31 Related party transactions	77
32 Events after the reporting date	78



**RSM RUS LTD**

4 Pudovkina street,  
Moscow, 119285, Russia  
T: +7 495 363 2848  
F: +7 495 9814121  
E: mail@rsmrus.ru  
www.rsmrus.ru

21.04.2016 N PCM-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 – 108776000019.

**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**

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



N.A. Dantser



**ROSSETI Group**  
*Consolidated Statement of Profit or Loss and Other Comprehensive Income*  
*for the year ended 31 December 2015*  
*(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
<b>Results from operating activities</b>		<b>136,343</b>	<b>14,112</b>
Finance income	12	16,238	10,712
Finance costs	12	(38,865)	(42,863)
<b>Net finance costs</b>		<b>(22,627)</b>	<b>(32,151)</b>
Share of loss of associates and joint ventures (net of income tax)		(4)	(10)
<b>Profit/(loss) before income tax</b>		<b>113,712</b>	<b>(18,049)</b>
Income tax expense	13	(32,110)	(6,208)
<b>Profit/(loss) for the year</b>		<b>81,602</b>	<b>(24,257)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
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)
<b>Total items that may be reclassified subsequently to profit or loss</b>		<b>6,109</b>	<b>753</b>
<i>Items that will never be reclassified subsequently to profit or loss</i>			
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)
<b>Total items that will not be reclassified subsequently to profit or loss</b>		<b>(4,188)</b>	<b>2,524</b>
<b>Other comprehensive income for the year, net of income tax</b>		<b>1,921</b>	<b>3,277</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>83,523</b>	<b>(20,980)</b>
<b>Profit/ (loss) attributable to:</b>			
Owners of the Company		64,036	(15,355)
Non-controlling interest		17,566	(8,902)
<b>Total comprehensive income/(loss) attributable to:</b>			
Owners of the Company		65,917	(13,071)
Non-controlling interest		17,606	(7,909)
<b>Earnings /(loss) per share</b>			
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

**ROSSETI Group**  
*Consolidated Statement of Financial Position as at 31 December 2015*  
*(in millions of Russian rubles, unless otherwise stated)*

	<u>Notes</u>	<u>31 December 2015</u>	<u>31 December 2014</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
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
<b>Total non-current assets</b>		<b>1,811,144</b>	<b>1,696,553</b>
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>334,613</b>	<b>287,526</b>
<b>Total assets</b>		<b>2,145,757</b>	<b>1,984,079</b>

**ROSSETI Group**  
*Consolidated Statement of Financial Position as at 31 December 2015*  
*(in millions of Russian rubles, unless otherwise stated)*

	Notes	31 December 2015	31 December 2014
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	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
<b>Total equity attributable to equity holders of the Company</b>		<b>852,912</b>	<b>752,980</b>
Non-controlling interest		315,983	285,824
<b>Total equity</b>		<b>1,168,895</b>	<b>1,038,804</b>
<b>Non-current liabilities</b>			
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
<b>Total non-current liabilities</b>		<b>577,142</b>	<b>563,161</b>
<b>Current liabilities</b>			
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
<b>Total current liabilities</b>		<b>399,720</b>	<b>382,114</b>
<b>Total liabilities</b>		<b>976,862</b>	<b>945,275</b>
<b>Total equity and liabilities</b>		<b>2,145,757</b>	<b>1,984,079</b>

**ROSSETI Group**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2015*  
*(in millions of Russian rubles, unless otherwise stated)*

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
<b>OPERATING ACTIVITIES</b>			
Profit/ (loss) for the year		<b>81,602</b>	<b>(24,257)</b>
<i>Adjustments for:</i>			
Depreciation and amortization of property, plant and equipment and intangible assets	10	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
<b>Operating profit before changes in working capital</b>		<b>242,840</b>	<b>235,593</b>
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
<b>Cash flows from operating activities before income tax and interest paid</b>		<b>225,652</b>	<b>214,948</b>
Income tax paid		(6,196)	(7,322)
Interest paid		(62,768)	(46,950)
<b>Net cash flows from operating activities</b>		<b>156,688</b>	<b>160,676</b>



**ROSSETI Group**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2015*  
*(in millions of Russian rubles, unless otherwise stated)*

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
<b>INVESTING ACTIVITIES</b>			
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	-
<b>Net cash flows used in investing activities</b>		<b>(174,519)</b>	<b>(166,290)</b>
<b>FINANCING ACTIVITIES</b>			
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)
<b>Net cash flows from financing activities</b>		<b>32,345</b>	<b>26,273</b>
<b>Net increase in cash and cash equivalents</b>		<b>14,514</b>	<b>20,659</b>
<b>Cash and cash equivalents at the beginning of year</b>		<b>82,576</b>	<b>61,917</b>
<b>Cash and cash equivalents at the end of year</b>	20	<b>97,090</b>	<b>82,576</b>

	Attributable to equity holders of the Company							
	Share capital	Share premium	Treasury shares	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
<b>Balance at 1 January 2014</b>	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)
<b>Total comprehensive loss for the year</b>	-	-	-	2,284	(15,355)	(13,071)	(7,909)	(20,980)
Transactions with owners of the Company								
<b>Contributions and distributions</b>								
Disposal of treasury shares	-	-	94	-	-	94	-	94
Dividends	-	-	-	-	-	-	(2,032)	(2,032)
Effect of employee share options	-	-	-	-	4	4	-	4
<b>Total contributions and distributions</b>	-	-	94	-	4	98	(2,032)	(1,934)
Changes in ownership interests in subsidiaries								
Shares issued by subsidiaries	-	-	-	-	194	194	(167)	27
<b>Total transactions with owners of the Company</b>	-	-	94	-	198	292	(2,199)	(1,907)
<b>Balance at 31 December 2014</b>	163,154	212,978	(2,725)	(3,981)	383,554	752,980	285,824	1,038,804

**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
<b>Balance at 1 January 2015</b>	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)
<b>Total comprehensive income for the year</b>	-	-	-	-	1,881	64,036	65,917	17,606	83,523
<b>Transactions with owners of the Company</b>									
<b>Contributions and distributions</b>									
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
<b>Total contributions and distributions</b>	-	-	12	33,473	-	12	33,497	(2,045)	31,452
<b>Changes in ownership interests in subsidiaries</b>									
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)
<b>Total transactions with owners of the Company</b>	-	-	12	33,473	-	530	34,015	12,553	46,568
<b>Balance at 31 December 2015</b>	163,154	212,978	(2,713)	33,473	(2,100)	448,120	852,912	315,983	1,168,895

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

## **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 at each reporting date. 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 (CGU) is the presented as the greater of its two values: value in use of the asset (this unit) and his (her) fair value deducting the costs for sale. 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. Costs of 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 (independent) entity and will have no further (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)**

#### **(I) Employee benefits (continued)**

##### **(ii) *Defined benefit post-employment plans***

A defined benefit plan is a post-employment benefit plan differing from 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. Determined using such method 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/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 (in respect to all subjects the Russian Federation) and sale of electricity on the regulated market (in respect the Russian Federation subjects, not united in the price zones of the wholesale electricity 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) Services for technological connection to electric grids**

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 revenue**

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 (lost income) 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 indicators of 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 proportionately to their 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 contract. Subsequently the liability is reduced as payments are made and an imputed finance expense is recognized.

##### **(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. Group costs related to the financing of social programs, without making a commitment with respect to such financing in the future date are recognized in consolidated statement of profit or loss and other comprehensive income as they arise.

#### **(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 in other comprehensive income or directly in equity.

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 of the Company.

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 general commercial terms.

### 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. IFRS 9 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". The new standard eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. This model requires a lease to finance lease classification shown on the balance sheet and operating leases are accounted for off-balance. 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
- The sale or contribution of shares in associate or joint venture of the investor - Amendments to IFRS 10 and IAS 28
- 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.

## 5 Significant subsidiaries

	Country of incorporation	31 December 2015	31 December 2014
		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-Cherkesskenenergo	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.



## 5 Significant subsidiaries (continued)

### Business combinations and acquisition of non-controlling interests

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 fair value of the identifiable assets and liabilities of Joint-stock company "Saint Petersburg power grid" at the acquisition date:

	<b>Recognised fair value at acquisition</b>
<b>Assets</b>	
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
<b>Total assets</b>	<b>25,096</b>
<b>Liabilities</b>	
Loans and borrowings	(2,310)
Payables	(2,748)
Other liabilities	(6,206)
<b>Total liabilities</b>	<b>(11,264)</b>
<b>Net identifiable assets and liabilities</b>	<b>13,832</b>
Goodwill on acquisition	606
<b>Gain on bargain purchase</b>	<b>14,438</b>

## 5 Significant subsidiaries (continued)

### Business combinations and acquisition of non-controlling interests (continued)

The fair value of the identifiable assets and liabilities of Petrodvorets Electric Company at the acquisition date:

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

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.

## 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 OJSC Dagenergoset. 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 in full amount.

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

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

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.

## 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
<b>Non-controlling percentage</b>	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)		
<b>Net assets</b>	<b>635,461</b>	<b>171,445</b>	<b>91,824</b>	<b>38,873</b>	<b>41,767</b>	<b>34,340</b>	<b>14,145</b>		
<b>Carrying amount of non-controlling interest</b>	<b>126,101</b>	<b>84,776</b>	<b>31,427</b>	<b>19,347</b>	<b>20,838</b>	<b>17,033</b>	<b>6,236</b>	<b>10,225</b>	<b>315,983</b>
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)		
<b>Total comprehensive income/(loss)</b>	<b>61,966</b>	<b>12,065</b>	<b>3,010</b>	<b>743</b>	<b>1,371</b>	<b>2,891</b>	<b>17</b>		
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)		
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(13,892)</b>	<b>(3,904)</b>	<b>24,634</b>	<b>(272)</b>	<b>626</b>	<b>(70)</b>	<b>(1,184)</b>		

## 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.



## 7 Information about segments (continued)

### (i) Information about reportable segments

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

	IDGC										Yantar- energo	IDGC Centre	MOESK	FGC	Other	Total
	Siberia and Tomskaya DC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	IDGC Kubanener go	IDGC Caucasus North	IDGC Privolzhye North-West	Lenenergo	energo						
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
<b>Segment revenue</b>	<b>48,633</b>	<b>53,511</b>	<b>60,536</b>	<b>47,860</b>	<b>30,365</b>	<b>35,704</b>	<b>14,549</b>	<b>68,884</b>	<b>39,623</b>	<b>43,727</b>	<b>4,400</b>	<b>79,817</b>	<b>129,288</b>	<b>173,266</b>	<b>99,872</b>	<b>930,035</b>
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
<b>EBITDA</b>	<b>6,934</b>	<b>12,270</b>	<b>8,453</b>	<b>7,676</b>	<b>5,774</b>	<b>7,685</b>	<b>(436)</b>	<b>10,493</b>	<b>6,856</b>	<b>7,310</b>	<b>335</b>	<b>15,219</b>	<b>41,955</b>	<b>113,565</b>	<b>(3,943)</b>	<b>240,146</b>
<b>Segment assets</b>	<b>73,311</b>	<b>141,777</b>	<b>65,586</b>	<b>63,942</b>	<b>43,012</b>	<b>64,318</b>	<b>33,490</b>	<b>91,263</b>	<b>59,607</b>	<b>194,683</b>	<b>9,692</b>	<b>117,869</b>	<b>332,750</b>	<b>1,268,301</b>	<b>153,313</b>	<b>2,712,914</b>
Including property, plant and equipment and construction in progress																
Capital expenditure	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
Segment liabilities	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
	<b>39,388</b>	<b>24,037</b>	<b>30,494</b>	<b>20,952</b>	<b>37,739</b>	<b>31,988</b>	<b>18,220</b>	<b>40,967</b>	<b>32,000</b>	<b>81,347</b>	<b>7,558</b>	<b>61,556</b>	<b>141,761</b>	<b>382,915</b>	<b>160,254</b>	<b>1,111,176</b>

## 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	Kubane ergo	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
<b>Segment revenue</b>	<b>64,584</b>	<b>52,076</b>	<b>59,608</b>	<b>45,992</b>	<b>28,892</b>	<b>29,394</b>	<b>13,494</b>	<b>69,162</b>	<b>44,261</b>	<b>44,722</b>	<b>4,205</b>	<b>86,705</b>	<b>125,260</b>	<b>168,941</b>	<b>94,518</b>	<b>931,814</b>
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
<b>EBITDA</b>	<b>6,792</b>	<b>11,612</b>	<b>7,433</b>	<b>6,836</b>	<b>(1,410)</b>	<b>537</b>	<b>371</b>	<b>10,190</b>	<b>4,821</b>	<b>3,050</b>	<b>522</b>	<b>15,741</b>	<b>37,495</b>	<b>100,098</b>	<b>(3,758)</b>	<b>200,270</b>
<b>Segment assets</b>	<b>70,168</b>	<b>135,470</b>	<b>62,232</b>	<b>66,400</b>	<b>41,481</b>	<b>61,715</b>	<b>33,753</b>	<b>93,718</b>	<b>60,905</b>	<b>164,769</b>	<b>7,740</b>	<b>111,392</b>	<b>326,036</b>	<b>1,231,217</b>	<b>105,946</b>	<b>2,572,942</b>
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
<b>Segment liabilities</b>	<b>37,287</b>	<b>24,370</b>	<b>29,098</b>	<b>23,702</b>	<b>36,258</b>	<b>32,093</b>	<b>15,464</b>	<b>44,018</b>	<b>33,940</b>	<b>93,329</b>	<b>6,006</b>	<b>55,160</b>	<b>142,249</b>	<b>376,727</b>	<b>133,335</b>	<b>1,083,136</b>

## 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:

	<u>Year ended 31 December 2015</u>	<u>Year ended 31 December 2014</u>
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
<b>Revenues per consolidated statement of profit or loss and other comprehensive income</b>	<b><u>766,812</u></b>	<b><u>759,608</u></b>

## 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
<b>EBITDA of reportable segments</b>	<b>240,146</b>	<b>200,270</b>
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
	<b>248,942</b>	<b>131,834</b>
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)
<b>Profit/(loss) for the year per consolidated statement of profit or loss and other comprehensive income</b>	<b>81,602</b>	<b>(24,257)</b>

## 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:

	<u>31 December 2015</u>	<u>31 December 2014</u>
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
<b>Total assets per consolidated statement of financial position</b>	<b><u>2,145,757</u></b>	<b><u>1,984,079</u></b>

The reconciliation of reportable segment total liabilities is presented below:

	<u>31 December 2015</u>	<u>31 December 2014</u>
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
<b>Total liabilities per consolidated statement of financial position</b>	<b><u>976,862</u></b>	<b><u>945,275</u></b>

## 8 Revenue

	<u>Year ended 31 December 2015</u>	<u>Year ended 31 December 2014</u>
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
	<b>765,808</b>	<b>755,495</b>
Government subsidies	1,004	4,113
	<b>766,812</b>	<b>759,608</b>

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

	<u>Year ended 31 December 2015</u>	<u>Year ended 31 December 2014</u>
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
	<b>22,069</b>	<b>14,309</b>

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



## 10 Operating expenses

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
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
<i>Material expenses, including:</i>		
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
<i>Production work and services, including:</i>		
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
<i>Other third-party services, including:</i>		
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
	<b>652,538</b>	<b>759,805</b>

## 11 Personnel costs

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
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
	<b>162,911</b>	<b>155,155</b>

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

<i>Recognized in profit or loss</i>	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
<b><i>Finance income</i></b>		
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
	<b>16,238</b>	<b>10,712</b>
<b><i>Finance costs</i></b>		
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)
	<b>(38,865)</b>	<b>(42,863)</b>

## 13 Income tax

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

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

	<u>Year ended 31 December 2015</u>			<u>Year ended 31 December 2014</u>		
	<u>Before tax</u>	<u>Tax</u>	<u>Net of tax</u>	<u>Before tax</u>	<u>Tax</u>	<u>Net of tax</u>
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
	<u>2,488</u>	<u>(567)</u>	<u>1,921</u>	<u>3,798</u>	<u>(521)</u>	<u>3,277</u>

## 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	<b>113,712</b>		<b>(18,049)</b>	
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
	<b>(32,110)</b>	<b>(28)</b>	<b>(6,208)</b>	<b>34</b>

## 14 Property, plant and equipment

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
<i>Cost/Deemed cost</i>						
<b>At 1 January 2014</b>	<b>194,650</b>	<b>880,859</b>	<b>714,926</b>	<b>217,584</b>	<b>448,229</b>	<b>2,456,248</b>
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)
<b>At 31 December 2014</b>	<b>220,258</b>	<b>1,043,536</b>	<b>802,014</b>	<b>246,497</b>	<b>390,399</b>	<b>2,702,704</b>
<b>At 1 January 2015</b>	<b>220,258</b>	<b>1,043,536</b>	<b>802,014</b>	<b>246,497</b>	<b>390,399</b>	<b>2,702,704</b>
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)
<b>At 31 December 2015</b>	<b>237,648</b>	<b>1,138,556</b>	<b>885,119</b>	<b>266,680</b>	<b>352,607</b>	<b>2,880,610</b>
<i>Depreciation and impairment</i>						
<b>At 1 January 2014</b>	<b>(39,991)</b>	<b>(341,171)</b>	<b>(283,301)</b>	<b>(107,747)</b>	<b>(88,176)</b>	<b>(860,386)</b>
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)
<b>At 31 December 2014</b>	<b>(60,186)</b>	<b>(434,396)</b>	<b>(353,125)</b>	<b>(133,369)</b>	<b>(78,042)</b>	<b>(1,059,118)</b>
<b>At 1 January 2015</b>	<b>(60,186)</b>	<b>(434,396)</b>	<b>(353,125)</b>	<b>(133,369)</b>	<b>(78,042)</b>	<b>(1,059,118)</b>
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
<b>At 31 December 2015</b>	<b>(66,302)</b>	<b>(471,976)</b>	<b>(389,196)</b>	<b>(153,640)</b>	<b>(65,452)</b>	<b>(1,146,566)</b>
<i>Net book value</i>						
<b>At 31 December 2014</b>	<b>160,072</b>	<b>609,140</b>	<b>448,889</b>	<b>113,128</b>	<b>312,357</b>	<b>1,643,586</b>
<b>At 31 December 2015</b>	<b>171,346</b>	<b>666,580</b>	<b>495,923</b>	<b>113,040</b>	<b>287,155</b>	<b>1,734,044</b>

## **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%).



## 15 Intangible assets

	Software	Licenses and certificates	Other intangible assets	Total
<b>Initial cost</b>				
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	<u>16,652</u>	<u>271</u>	<u>8,762</u>	<u>25,685</u>
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	<u>19,346</u>	<u>149</u>	<u>11,936</u>	<u>31,431</u>
<b>Amortization</b>				
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	<u>(9,099)</u>	<u>(145)</u>	<u>(2,141)</u>	<u>(11,385)</u>
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	<u>(10,588)</u>	<u>(92)</u>	<u>(2,219)</u>	<u>(12,899)</u>
<b>Net book value</b>				
As of December 31, 2014	<u>7,553</u>	<u>126</u>	<u>6,621</u>	<u>14,300</u>
As of December 31, 2015	<u>8,758</u>	<u>57</u>	<u>9,717</u>	<u>18,532</u>

## 16 Other investments and financial assets

	31 December 2015	31 December 2014
<i>Non-current</i>		
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
	<u>31,928</u>	<u>22,952</u>
<i>Current</i>		
Financial assets held to maturity	36,777	17,908
	<u>36,777</u>	<u>17,908</u>

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 Tavrishesky 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 Tavrishesky 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 Tavrishesky. Bank Tavrishesky 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 indicates 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.

## 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
<b>Tax assets/(liabilities)</b>	<b>34,614</b>	<b>34,541</b>	<b>(74,161)</b>	<b>(52,172)</b>	<b>(39,547)</b>	<b>(17,631)</b>
Set-off of tax	(14,006)	(17,783)	14,006	17,783	-	-
Unrecognized deferred tax assets	(12,029)	(9,641)	-	-	(12,029)	(9,641)
<b>Net tax assets/(liabilities)</b>	<b>8,579</b>	<b>7,117</b>	<b>(60,155)</b>	<b>(34,389)</b>	<b>(51,576)</b>	<b>(27,272)</b>

### (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.

## 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
<b>Total</b>	<b>60,148</b>	<b>48,206</b>
<b>Unrecognized deferred tax assets at the applicable tax rate</b>	<b>12,029</b>	<b>9,641</b>

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)
	<b>(27,272)</b>	<b>2,273</b>	<b>(25,930)</b>	<b>(567)</b>	<b>(80)</b>	<b>(51,576)</b>

## 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)
	<u>(29,703)</u>	<u>2,952</u>	<u>(521)</u>	<u>(27,272)</u>

## 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)
<b>Net book value</b>	<u><b>33,921</b></u>	<u><b>26,630</b></u>

## 19 Trade and other receivables

	<u>31 December 2015</u>	<u>31 December 2014</u>
<b>Non-current accounts receivable</b>		
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)	-
<b>Total financial assets</b>	<b><u>11,137</u></b>	<b><u>1,341</u></b>
Advances given	7,728	14,591
Advances given impairment allowance	(4,838)	(10,992)
VAT recoverable	2,545	2,031
	<b><u>16,572</u></b>	<b><u>6,971</u></b>
<b>Current accounts receivable</b>		
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)	-
<b>Total financial assets</b>	<b><u>135,312</u></b>	<b><u>128,475</u></b>
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
	<b><u>162,624</u></b>	<b><u>155,776</u></b>

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

## 20 Cash and cash equivalents

	<u>31 December 2015</u>	<u>31 December 2014</u>
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	<u>97,090</u>	<u>82,576</u>

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*

	<u>Ordinary shares</u>		<u>Preference shares</u>	
	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>31 December 2015</u>	<u>31 December 2014</u>
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 general shareholders meeting of the Company 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 Annual General Shareholders Meeting of the Company decided not to declare dividends on preference and ordinary 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.		Cost, mln. RUB	Number of shares, mln.		Cost, 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 the year ended 31 December 2015 was based on the earnings attributable to ordinary shareholders for 2015 in the amount of RUB 64,036 million (for 2014: loss of RUB 15,355 million), and a weighted average number of ordinary shares outstanding of 159,591 million in 2015 (for 2014: 159,588 million). The Company has no dilutive financial instruments.

<i>In millions of shares</i>	2015	2014
Ordinary shares at 1 January	161,079	161,079
Effect of treasury shares	(1,488)	(1,491)
<b>Weighted average number of shares for the year ended 31 December</b>	<b>159,591</b>	<b>159,588</b>
	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
Weighted average number of ordinary shares outstanding, for the year ended 31 December (millions of shares)	159,591	159,588
Earning/(loss) for the year attributable to holders of ordinary shares	64,036	(15,355)
<b>Earnings/(loss) per ordinary share (in RUB) – basic and diluted</b>	<b>0.401</b>	<b>(0.096)</b>

## 23 Loans and borrowings

	<u>31 December 2015</u>	<u>31 December 2014</u>
<i>Non-current liabilities</i>		
Unsecured loans and borrowings	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 and borrowings	(54,036)	(20,598)
Less: current portion of long-term bonds	(46,463)	(48,610)
	<u>465,439</u>	<u>485,409</u>
<i>Current liabilities</i>		
Unsecured loans and borrowings	17,828	23,431
Promissory notes	359	363
Current portion of long-term finance lease liabilities	146	225
Current portion of long-term loans and borrowings	54,036	20,598
Current portion of long-term bonds	46,463	48,610
	<u>118,832</u>	<u>93,227</u>

## 23 Loans and borrowings (continued)

	Currency	Year of maturity	31 December 2015		31 December 2014		31 December 2015		31 December 2014	
			Nominal interest rate	Nominal interest rate	Face value	Carrying value	Face value	Carrying value	Face value	Carrying value
<b>Unsecured loans and borrowings</b>										
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	4,224		
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		
					<b>238,520</b>	<b>238,827</b>	<b>279,349</b>	<b>276,522</b>		
<b>Promissory notes</b>										
Promissory notes	RUB	On demand	0%	0%	359	359	363	363		
					<b>359</b>	<b>359</b>	<b>363</b>	<b>363</b>		

**ROSSETI Group**  
Notes to the Consolidated Financial Statements for the year ended 31 December 2015  
(in millions of Russian rubles, unless otherwise stated)

	Currency	Year of maturity	31 December 2015		31 December 2014		31 December 2015		31 December 2014	
			Nominal interest rate	Nominal interest rate	Face value	Carrying value	Face value	Carrying value	Face value	Carrying value
<b>Bonds</b>										
Unsecured bonds	RUB	2022-2048	(CPI-100%) + 1.00% - (CPI-100%) + 2.50%	(CPI-100%) + 1.00% - (CPI-100%) + 2.50%	110,000	112,542	110,000	111,383	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**	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**	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	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	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	6,103	6,095
Unsecured bonds	RUB	2020-2025	11.80%	8.95%	5,000	5,053	4,076	4,072	4,076	4,072
Unsecured bonds	RUB	2016	8.40%	8.40%	3,000	3,106	3,106	3,106	3,106	3,106
Unsecured bonds	RUB	2024	8.00%	9.30%	737	511	1,082	740	1,082	740
Unsecured bonds	RUB	2015	-	9.15%	-	-	4,015	4,015	4,015	4,015
<b>Financial lease liabilities</b>	RUB	2016	9.50-25.20%	8%	380,237	344,422	326,394	300,842	326,394	300,842
<b>Total debt</b>					663	663	909	909	663	909
					621,144	584,271	607,015	578,636	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

<sup>1</sup> Consumer price index - CPI

## 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.

Information about the Group's exposure to interest rate risk is disclosed in Note 27.

The amount of free limit on open but unused credit lines of the Group was RUB 201,269 million at 31 December 2015 (RUB 182,352 million as at 31 December 2014).

Financial lease liabilities by repayment term are disclosed below:

	31 December 2015		31 December 2014		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
	<b>804</b>	<b>141</b>	<b>663</b>	<b>1,150</b>	<b>241</b>	<b>909</b>

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.

Amounts of defined benefit obligations recognized in the consolidated statement of financial position are presented below:

	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
<b>Total present value of employee benefit obligation</b>	<b>29,473</b>	<b>25,512</b>

## 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
<b>Value of assets at 1 January</b>	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)
<b>Value of assets at 31 December</b>	<b>6,617</b>	<b>6,552</b>

Assets related to pension plans and defined benefit plans are administrated by non-state pension funds NPF Elektroenergetiki 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 present value of defined benefit liabilities:

	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
<b>Defined benefit plan obligations as at 1 January</b>	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 expense	2,639	101	1,961	73
Remeasurement arising from:				
– Actuarial (gain)/loss arising from demographic assumptions	(135)	(1)	544	15
– Actuarial loss/(gain) arising from financial assumptions	3,911	146	(3,869)	(145)
– Actuarial loss/(gain) arising from experience adjustment	1,410	81	302	(11)
Contributions to the plan	(2,752)	(136)	(2,621)	(143)
<b>Defined benefit plan obligations as at 31 December</b>	<b>28,231</b>	<b>1,242</b>	<b>24,544</b>	<b>968</b>



## 24 Employee benefits (continued)

Expenses recognized in profit or loss for the period:

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

Amounts recognized in other comprehensive income for the period:

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

Movements in allowance for remeasurement of employee benefit obligations in other comprehensive income during the year:

	<b>Year ended</b> <b>31 December 2015</b>	<b>Year ended</b> <b>31 December 2014</b>
Remeasurements at 1 January	7,658	10,681
Movement of remeasurements	5,186	(3,023)
<b>Remeasurements at 31 December</b>	<b>12,844</b>	<b>7,658</b>

## 24 Employee benefits (continued)

The key actuarial assumptions are as follows:

	<u>31 December 2015</u>	<u>31 December 2014</u>
<b>Financial assumptions</b>		
Discount rate	9,5%	12%
Future salary increase	6%	7%
Inflation rate	6%	7%
<b>Demographic assumptions</b>		
Expected age of retirement:		
Men	60	60
Women	55	55
Average level of staff movement	6,3%	6.5%

A sensitivity of total employee benefits obligations to changes in the key actuarial assumptions is as follows:

	<u>Change in the assumption</u>	<u>Impact on obligation</u>
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%
Level of staff movement	Increase/decrease by 10%	Decrease/increase by 1,68%
Mortality level	Increase/decrease by 10%	Decrease/increase by 0,82%

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

Expected payments under the defined long-term employee 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.

## 25 Trade and other payables

	<u>31 December 2015</u>	<u>31 December 2014</u>
<b>Non-current accounts payable</b>		
Trade payables	180	331
Other payables	224	204
<b>Total financial liabilities</b>	<b>404</b>	<b>535</b>
Advances from customers	21,671	17,316
	<u>22,075</u>	<u>17,851</u>
<b>Current accounts payable</b>		
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
<b>Total financial liabilities</b>	<b>176,315</b>	<b>189,198</b>
Advances from customers	74,783	67,041
	<u>251,098</u>	<u>256,239</u>
<b>Taxes payable</b>		
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
	<u>16,874</u>	<u>12,230</u>
	<u>267,972</u>	<u>268,469</u>

The Group's exposure to liquidity risk related to payables is disclosed in Note 27.

## 26 Provisions

	<u>2015</u>	<u>2014</u>
<b>Balance at 1 January</b>	<b>18,871</b>	<b>10,397</b>
Increase for the year	10,744	15,310
Decrease due to reversal of provisions	(6,815)	(3,174)
Provisions used	(11,379)	(3,662)
<b>Balance at 31 December</b>	<b>11,421</b>	<b>18,871</b>

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

## 27 Financial risk and capital 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 in the relevant sections of 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 takes 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 receivables.

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

## 27 Financial risk and capital management (continued)

### Exposure to credit risk

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

	Carrying amount	
	31 December 2015	31 December 2014
Promissory notes	354	3,086
Participation units/shares	608	-
Loans given and receivables	146,449	129,816
Bank deposits, cash and cash equivalents	136,001	110,051
	<b>283,412</b>	<b>242,953</b>

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
	<b>131,181</b>	<b>114,263</b>

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

### Impairment losses of trade and other receivables

The aging of trade and other receivables is provided below:

	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)
	<b>227,775</b>	<b>(82,626)</b>	<b>189,879</b>	<b>(60,910)</b>

## 27 Financial risk and capital management (continued)

The movement in the allowance for impairment of trade and other receivables was as follows:

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

### Impairment of receivables

	<u>31 December 2015</u>	<u>31 December 2014</u>
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
	<u>227,775</u>	<u>189,879</u>

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 amount of free limit on open but unused credit lines of the Group was 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.

## 27 Financial risk and capital management (continued)

Information about the contractual maturities of financial liabilities, including estimated interest payments, is provided below:

### 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
<b>Non-derivative financial liabilities</b>								
Loans and borrowings	238,827	279,230	88,547	82,263	103,653	4,452	38	277
Bonds	344,422	661,449	76,151	53,023	49,391	33,642	51,363	397,879
Promissory notes	359	359	359	-	-	-	-	-
Finance lease liabilities	663	804	208	175	333	25	25	38
Trade and other payables	176,719	175,472	175,055	305	3	69	3	37
	<b>760,990</b>	<b>1,117,314</b>	<b>340,320</b>	<b>135,766</b>	<b>153,380</b>	<b>38,188</b>	<b>51,429</b>	<b>398,231</b>

### 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
<b>Non-derivative financial liabilities</b>								
Loans and borrowings	276,522	339,869	67,377	105,507	84,907	76,406	925	4,746
Bonds	300,842	494,494	81,620	53,008	42,819	32,020	26,988	258,039
Promissory notes	363	363	363	-	-	-	-	-
Finance lease liabilities	909	1,150	317	213	181	339	30	70
Trade and other payables	189,733	188,197	187,128	619	241	31	21	157
	<b>768,369</b>	<b>1,024,073</b>	<b>336,805</b>	<b>159,347</b>	<b>128,148</b>	<b>108,796</b>	<b>27,964</b>	<b>263,012</b>



## 27 Financial risk and capital management (continued)

### (d) Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates, prices of goods and equity prices that will affect the Group's financial results 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.

The Group 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, the Group 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 for the period. 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 amounted to RUB 156,424 million (31 December 2014: RUB 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) for 2015 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. The 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 the Group Management. As at 31 December 2015, available-for-sale financial assets exposed to equity price risk amounted to RUB 22,215 million (31 December 2014: RUB 14,019 million).

## 27 Financial risk and capital management (continued)

### (e) Fair values and carrying amounts

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

	Note	31 December 2015		31 December 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Loans given 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
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)
		<b>(455,363)</b>	<b>(426,931)</b>	<b>(521,669)</b>	<b>(453,229)</b>

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

In the table below loans and borrowings, which are recognized at amortized cost, are presented at fair value by hierarchy level.

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

## 27 Financial risk and capital management (continued)

### (f) Fair value hierarchy (continued)

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

The table below analyses financial instruments carried at fair value by valuation method.

	<u>Level 1</u>	<u>Total</u>
<b>31 December 2015</b>		
Available-for-sale financial assets	22,215	22,215
	<u>22,215</u>	<u>22,215</u>
<b>31 December 2014</b>		
Available-for-sale financial assets	14,019	14,019
	<u>14,019</u>	<u>14,019</u>

The reconciliation of the carrying amount of available-for-sale financial assets at the year beginning and the year end is provided in the table below:

<b>At 1 January 2015</b>	<b>14,019</b>
Additions	112
Additions on acquisition of subsidiaries	263
Impairment loss	(4)
Change in fair value recognized in other comprehensive income	7,825
<b>At 31 December 2015</b>	<u><b>22,215</b></u>

### (g) Capital management

The Group's debt-to-capital ratio was as follows:

	<b>Carrying amount</b>	
	<u>31 December 2015</u>	<u>31 December 2014</u>
Total liabilities	976,862	945,275
Less: cash and cash equivalents	(97,090)	(82,576)
<b>Net debt</b>	<u><b>879,772</b></u>	<u><b>862,699</b></u>
Equity	1,168,895	1,038,804
<b>Debt-to-equity ratio</b>	<u><b>75.27%</b></u>	<u><b>83.05%</b></u>

There were no significant changes in the Group's approach to capital management during 2015.

## 27 Financial risk and capital management (continued)

### (g) Capital management (continued)

Capital management of 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 Group takes necessary actions for keeping net assets in the amount not less than the charter capital to comply with the legal requirements.

## 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.

Lease agreements were entered into in prior periods and consist of land plots on which power lines, equipment for electricity transmission 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:

	<u>31 December 2015</u>	<u>31 December 2014</u>
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
	<u>55,137</u>	<u>65,162</u>

The amount of operating lease expenses for 2015 included in operating expenses amounted to RUB 6,702 million (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 items 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. As at 31 December 2015, the Group does not expect (also based on previous experience) 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, the outcomes of current legal proceedings will not have a material adverse effect on the results of the Group's operating activities, except accrued provisions (Note 26).

### **(d) Environmental matters**

The Group 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. The 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, the Group Management believes that there are no significant liabilities for environmental damage.

### 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 shares 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.

The Group has 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:

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
Salaries and bonuses	419	549
Post employment benefits	4	3
<b>Total</b>	<b>423</b>	<b>552</b>

## **31 Related party transactions (continued)**

### **(c) Transactions with government-related entities**

In the course of its operating activities, the Group is engaged in many transactions with state-controlled entities. These transactions are carried out in accordance with regulated tariffs or based on market prices.

Revenues from state-controlled entities for the year ended 31 December 2015 constitute 42% (for the year ended 31 December 2014: 35%) of total Group revenues, including 44% (for the year ended 31 December 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% (for the year ended 31 December 2014: 36%) of total electricity transmission costs.

Loans and borrowings received 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 and sale 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.