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SO UPS GROUP

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2015 and Auditors' Report

Contents

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25.04.2016г. N ФСИ-2374

THIS IS THE TRANSLATION OF THE ORIGINAL DOCUMENT PREPARED IN RUSSIAN

Auditor's Report
On the 2015 Consolidated Financial Statements

To the Shareholder of OJSC SO UES

Audited entity:

Open Joint-Stock Company "System Operator of Unified Energy System" (abbreviated name — **OJSC SO UES).**

Location: 7, Kitaygorodsky Passage, bldg.3, Moscow 109074, Russia;

Primary state registration number – 1027700201352.

Auditor:

RSM RUS Ltd.
Location: 4, Pudovkina Str., Moscow, 119285.
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 OJSC SO UES, which comprise consolidated statement of financial position as at 31 December 2015, consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity for the year ended 31 December 2015, notes to the consolidated financial statements.

Audited entity's responsibility for the consolidated financial statements

The management of OJSC SO UES is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for the system of internal control relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit included performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on our judgment, which is based on the assessment of the risk of material misstatement, whether due to fraud or error. In making those risk assessments, we considered the system of internal control which ensures the preparation and fair presentation of the consolidated financial statements in order to select appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

An audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management of the audited entity, 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 on the fairness of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OJSC SO UES and its subsidiaries as at 31 December 2015, the results of their financial performance and cash flows for 2015 in accordance with International Financial Reporting Standards.

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

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

ORNZ – 29605011647

Общество с ограниченной ответственностью "РСМ РУСЬ" * Москва * ИНН 7722020834 * ОГРН 1027700257540

Audit Manager — **E.V. Rumyantseva**

Audit Certificate No. 05-000049. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 30 December 2011 No. 28. Permanent award.

ORNZ – 21005008547

In millions of Russian Roubles (RUB)

Consolidated Statement of Financial Position as at 31 December 2015

	Notes	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	5	25,360	22,857
Intangible assets	6	2,710	2,480
Other non-current assets	7	1,145	939
Total non-current assets		**29,215**	**26,276**
Current assets			
Inventories		178	163
Loans issued		93	-
Accounts receivable and prepayments	8	773	1,050
Income tax receivable		156	159
Cash and cash equivalents	19	5,697	6,064
Total current assets		**6,897**	**7,436**
TOTAL ASSETS		**36,112**	**33,712**
EQUITY AND LIABILITIES			
Equity attributable to the shareholder			
Share capital registered	9	2,576	2,576
Share premium	9	7,800	7,800
Revaluation reserve	5	5,194	5,194
Contribution from the shareholder	9	833	833
Retained earnings and other reserves		13,931	11,830
Total equity		**30,334**	**28,233**
Non-current liabilities			
Deferred income tax liabilities	16	467	560
Retirement benefit obligations	11	2 218	1,995
Total non-current liabilities		**2 685**	**2,555**
Current liabilities			
Current debt and current portion of non-current debt	10	10	7
Accounts payable	12	2,062	1,904
Taxes payable	13	1,021	1,013
Total current liabilities		**3,093**	**2,924**
Total liabilities		**5,778**	**5,479**
TOTAL EQUITY AND LIABILITIES		**36,112**	**33,712**

Chairman of the Management Board B.I. Ayuev

Chief Accountant M.S. Sedyakin

"25" April 2016

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 38.

In millions of Russian Roubles (RUB)

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Revenues			
Dispatch management fees		26,170	24,749
Other income		575	525
Total revenues		**26,745**	**25,274**
Operating expenses	**14**	**(23,843)**	**(22,638)**
Operating profit		**2 902**	**2,636**
Finance income and costs			
Finance income	15	786	708
Finance costs	15	(226)	(147)
Profit before income tax		**3,462**	**3,197**
Income tax expense	16	(779)	(707)
Profit for the year		**2,683**	**2,490**
Other comprehensive income/(loss)			
Items that will never be reclassified to profit or loss			
Revaluation of property, plant and equipment		-	638
Remeasurements of defined benefit liability	11	9	47
Related income tax		(2)	(137)
		7	**548**
Items that are or may be reclassified to profit or loss			
Change in fair value of available-for-sale financial assets		(1)	(1)
		(1)	**(1)**
Other comprehensive income, net of income tax		**6**	**547**
Total comprehensive income for the year		**2,689**	**3,037**
Total comprehensive income attributable to Shareholder		**2,689**	**3,037**

Chairman of the Management Board — B.I. Ayuev

Chief Accountant — M.S. Sedyakin

“ 25 ” April 2016

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 38.

In millions of Russian Roubles (RUB)

Consolidated Statement of Cash Flows for the year ended 31 December 2015

	Note	Year ended 31 December 2015	Year ended 31 December 2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**3,462**	**3,197**
Adjustments to reconcile profit before income tax to net cash provided by operations:			
Depreciation and revaluation of property, plant and equipment and amortization of intangible assets	5, 6	2,991	2,687
Retirement benefit charge	11	376	240
Foreign exchange gain	15	(142)	(271)
Finance income, net (excluding interest on retirement benefit obligations)	15	(640)	(432)
Non-refundable VAT		20	12
Loss/(gain) on disposal of property, plant and equipment		80	103
Changes in provision for impairment of trade and other receivables	14	151	135
Operating cash flows before working capital changes and income tax paid		**6,298**	**5,671**
Working capital changes:			
Change in accounts receivable and prepayments		85	(353)
Change in other non-current and current assets		55	91
Change in inventories		(15)	(52)
Change in accounts payable and accruals		158	196
Change in taxes payable, other than income tax		2	(54)
Income tax paid		(867)	(743)
Retirement benefits paid	11	(144)	(124)
Net cash generated by operating activities		**5,572**	**4,632**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and intangible assets		(6,021)	(4,748)
Proceeds from sale of property, plant and equipment		7	17
Interest received		623	424
Loans issued		(93)	
Net cash used in investing activities		**(5,484)**	**(4,307)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		3	7
Interest paid		(4)	(5)
Dividends paid		(587)	(610)
Net cash used in financing activities		**(588)**	**(608)**
Net decrease in cash and cash equivalents		**(500)**	**(283)**
Cash and cash equivalents at the beginning of the year		6,064	6,076
Effect of exchange rate fluctuations on cash held		133	271
Cash and cash equivalents at the end of the year		**5,697**	**6,064**

Chairman of the Management Board B.I. Ayuev

Chief Accountant M.S. Sedyakin

“ 25 ” April 2016

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 38.

In millions of Russian Roubles (RUB)

Consolidated Statement of Changes in Equity for the year ended 31 December 2015

	Share capital	Share premium	Revaluation reserve	Contribution from the shareholder	Remeasurements of defined benefit liability (asset)	Retained earnings	Total equity
At 31 December 2013	**2,576**	**7,800**	**4,683**	**833**	**(375)**	**10,289**	**25,806**
Profit for the year	-	-	-	-	-	2,490	2,490
Other comprehensive loss, net of tax	-	-	511	-	37	(1)	547
Total comprehensive income for the year	-	-	**511**	-	**37**	**2,489**	**3,037**
Dividends	-	-	-	-	-	(610)	(610)
At 31 December 2014	**2,576**	**7,800**	**5,194**	**833**	**(338)**	**12,168**	**28,233**
Profit for the year	-	-	-	-	-	2,683	2,683
Other comprehensive income, net of tax	-	-	-	-	6	(1)	5
Total comprehensive income for the year	-	-	-	-	**6**	**2,682**	**2,688**
Dividends	-	-	-	-	-	(587)	(587)
At 31 December 2015	**2,576**	**7,800**	**5,194**	**833**	**(332)**	**14,263**	**30,334**

Chairman of the Management Board B.I. Ayuev

Chief Accountant M.S. Sedyakin

"25" April 2016

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 38.

Note 1. General information

The Company and its operations

The Open Joint Stock Company System Operator of the United Power System (hereinafter – "the Company" or OJSC SO UPS) was founded based on the Resolution of the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter – "OJSC RAO UES") No.39r of 13 June 2002 in accordance with the Decree of the Russian Federation Government No.526 of 11 July 2001 "On reforming of electricity (power) generation industry of the Russian Federation".

The Company's registered office: 7 Kitaigorodsky proezd, bld. 3, 109074, Moscow, Russia.

The Company's principal activities include electricity operational-dispatching functions within the Unified Energy System of the Russian Federation and organization of forecasting of power production and consumption.

As at 31 December 2015, the Company had 61 branches (31 December 2014: 60).

The SO UPS Group ("the Group") includes OJSC SO UPS and its subsidiaries. As at 31 December 2015 the Company owned 100 % (2014: 100%) of the share capital of JSC Scientific and Technical Center of Unified Power System (JSC "STC UPS", former JSC "NIIPT") and 100 % (2014: 100%) of the share capital of CJSC "Inspection of Electric Power Facilities" (CJSC "Technical Inspection of UES"). All subsidiaries have been established and operate in the territory of the Russian Federation.

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 - 2015, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian rouble, as well as sanctions imposed on Russia by several countries. In December 2014, the rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17% which has been reduced to 11% in 2015.The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. The Group's Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

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 management's assessment.

Relations with the State

As at 31 December 2015 and as at 31 December 2014 the Russian Federation represented by the Federal Agency of State Property Management owned 100 percent of OJSC SO UPS.

The Group's customer base includes a large number of enterprises which are either controlled by or directly relate to the State.

The Government of the Russian Federation directly affects the Company's operations through:

- participation of its representatives on the Board of Directors of the Company;
- regulation by the Federal Service on Tariffs ("FST") of the fees chargeable by the Company for the provision of dispatching services related to electric power transmission in the Unified Energy System of Russia;
- control over and approval of the Company's investment program;
- antimonopoly regulation.

Note 2. Basis of preparation

Statement of compliance

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

Each company of the Group maintains its accounting records and prepares its financial statements in accordance with the Regulation on Accounting and Reporting of the Russian Federation. These Financial Statements are based on the statutory accounting records, with adjustments recorded for the purposes of fair presentation in accordance with the requirements of IFRS.

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the property, plant and equipment class "Buildings" which is stated at a revalued amount, and available-for-sale financial assets which are stated at fair value.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Company and each of the Group's consolidated entities and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million, unless otherwise stated.

Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements.

The Group has adopted new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015.

The nature and effects of the changes are explained below.

The following Interpretations and amendments which are effective from 1 January 2015 were applied by the Group for the first time in 2015, but they do not significantly impact the financial statements:

- *Defined Benefit Plans: Employee Contributions* – Amendments to IAS 19 *Employee Benefits*. The amendments allow entities to recognize employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

Various *Annual Improvements to IFRS, 2010-2012 Cycle* include the following amendments:

- IFRS 2 *Share-based Payment*

This amendment is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods.

- IFRS 3 *Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39.

- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

- IAS 24 *Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Critical accounting estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, 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 those estimates.

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is provided below:

Note 5 - Revaluation of the class 'Buildings' within property, plant and equipment;

Notes 3 and 5 - Useful life of property, plant and equipment;

Note 11 - Retirement benefit obligations.

New standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective up to the date of issuance of the financial statements, and have not been applied in preparing these financial statements. The following standards and interpretations may have potential impact on the Group's operations. The Group plans to adopt the following standards and interpretations when they become effective:

- IFRS 14 *Regulatory Deferral Accounts* is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. The Group does not intend to apply IFRS 14.
- IFRS 9 *Financial Instruments* was issued in phases and ultimately replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment IFRS 9 replaces the 'incurred loss' model used in IAS 39, with an 'expected credit loss' model that will require a more timely and complete recognition of losses on financial assets. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group acknowledges that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The Group is currently assessing the impact of the standard on the consolidated financial statements. The Group does not intend to adopt this standard early.
- IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains all requirements for related disclosures in the financial statements. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related IFRS interpretations on Revenue recognition. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group is currently assessing the impact of the standard on its consolidated financial statements. The Group does not intend to adopt this standard early.
- IFRS 16 *Leases*. IFRS 16 is a single guidance for lease accounting and contains all requirements for related disclosures in the financial statements. The new standard replaces IAS 17 *Leases* and the related IFRS interpretations on lease. IFRS 16 is partly or fully retrospectively effective for annual periods beginning on or after 1 January 2019, with earlier application permitted under the simultaneous application of IFRS 15. The Group acknowledges that the new standard introduces many changes to` the accounting for the lease and is likely to have a significant impact on the Group's consolidated financial statements. The Group is currently assessing the impact of the standard on the consolidated financial statements. The Group does not intend to adopt this standard early.
- Various *Annual Improvements to IFRS, 2012-2014 Cycle* are effective for annual periods beginning on or after 1 January 2016. The document includes the following amendments:
    - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

- IFRS 7 *Financial Instruments: Disclosures*

Servicing contracts. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment.

Applicability of the amendments to IFRS 7 to condensed interim financial statements. The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

- IAS 19 *Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively. The amendments are not expected to have any impact on the Group's financial statements.

- *Disclosure Initiative* – Amendments to IAS 1 *Presentation of Financial Statements*

The amendments clarify, rather than significantly change, the existing requirements:

- the materiality requirements in IAS 1;

- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;

- that entities have flexibility as to the order in which they present the notes to financial statements;

- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's financial statements.

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 a liability, the Group uses market observable data as far as possible. Fair values are categorised 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 categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised 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 recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Note 3. Summary of significant accounting policies

Except for the changes in accounting policies set out in Note 2, 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) Consolidation principles

The Group's consolidated financial statements incorporate the results, cash flows, assets and liabilities of OJSC "SO UPS" and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity generally accompanying a shareholding of more than one half of the voting rights.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over subsidiaries is transferred to the Group. Subsidiaries are de-consolidated from the date that control ceases.

All intragroup transactions and balances, and any unrealized income and expenses arising from the intragroup transactions are eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted subsidiaries 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.

(b) Foreign currency transactions

The Group's monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RUB at the exchange rates effective at that date. Foreign currency transactions are accounted for at the exchange rates effective at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(c) Dividends

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

(d) Property, plant and equipment

Items of property, plant and equipment (except for "Buildings" class) are stated at acquisition or construction cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Property, plant and equipment items comprising the Buildings class are stated at a revalued amount being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is carried out on a regular basis to ensure that the carrying amount does not differ significantly from that which would be determined using fair value at the reporting date. The frequency of revaluations depends upon the movements in the fair values of the assets being revalued.

The increase in the carrying amount arising on revaluation of an item of property, plant and equipment is recognised directly under the heading of "revaluation reserve" in other comprehensive income. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A revaluation decrease on property, plant and equipment is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Group recognizes deferred tax assets and liabilities arising from revaluation of items of property, plant and equipment directly in equity, except when the revaluation result was recognised in profit or loss.

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

Renewals and improvements are capitalized and the assets replaced are retired. Repair and maintenance costs are expensed as incurred.

Any 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 recognised net within other income/other expenses in profit or loss for the year. When revalued assets are sold, any related amount included in the revaluation reserve as revaluation surplus is transferred to retained earnings.

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the item of property, plant and equipment when it is available for use. Land is not depreciated.

The useful lives (in years) of property, plant and equipment by type are as follows:

	The useful lives
Industrial buildings	20 to 50 years
Electrical equipment	15 to 20 years
Computer, dispatching and communication equipment	3 to 20 years
Other PPE (motor vehicles, office equipment, furniture and fixtures etc.)	3 to 20 years

Useful lives of property, plant and equipment are reviewed annually.

(e) Intangible Assets

All of the Group's intangible assets have definite useful lives and primarily include capitalized computer software and licences.

Acquired computer software and licences are capitalized on the basis of the costs incurred to acquire and bring them to use.

After initial recognition, intangible assets are carried at cost of acquisition (creation) less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives of intangible assets of 1-5 years.

At each reporting date management assesses whether there is any indication of impairment of intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of two values: the assets' fair value less costs to sell and their value in use.

Research costs are recognised as an expense as incurred. Development costs are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure incurred during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The carrying value of development costs is reviewed for impairment annually.

(f) Cash and Cash Equivalents

Cash comprises cash at banks, cash on hand and short-term deposits with an original maturity of three months or less.

(g) Accounts receivable and prepayments made

Accounts receivable are recorded inclusive of value added taxes less an allowance made for impairment of these receivables. An allowance for doubtful debtors is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective rate of interest. Where provision has been made for impairment of receivables, the impairment loss is recognised for the gross amount of the debtor's balance, including value added tax.

(h) Value added tax on purchases and sales

Value added tax ("VAT") related to sales is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is recoverable against output VAT. The tax authorities permit the payment of the difference between input VAT and output VAT.

(i) Loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method; any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the loan or borrowing.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily requires extended period to prepare the asset for its intended use or sale are capitalised as part of the initial cost of the asset. All other borrowing costs are recognised as an expense in the period in which they were incurred. Borrowing costs include interest costs and other costs incurred by the Group in connection with loans and borrowings.

The Group capitalizes borrowing costs relating to all the qualifying assets for which the commencement date for construction is on or after 1 January 2009. The Group continues to recognize as an expense borrowing costs associated with construction projects for which the commencement date is before 1 January 2009.

(j) Accounts payable and accrued charges

Accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) Employee benefits

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in wages, benefits and payroll taxes in the statement of comprehensive income.

The Group incurs employee costs related to the provision of benefits such as medical insurance and accident insurance, which are also expensed when incurred.

The Group operates defined benefit plans that cover the majority of the Group's employees.

Benefit plans define the amount of pension benefits that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

For defined benefit plans, the amount of costs is determined using the Project Unit Credit Method, with actuarial valuations being carried out as at 31 December 2015, 2014 and 2013.

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 recognised immediately in OCI. 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 and other expenses related to defined benefit plans are recognised in profit or loss.

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 recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Remeasurements of Other non-current employee benefits are recognised in profit or loss in the period in which they arise.

(m) Deferred income tax

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

A deferred tax asset for deductible temporary differences is recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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 assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted (or substantively enacted) at the balance sheet date.

The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

(n) Revenue recognition

Revenue from rendering services is recognised in the period the services are provided. Revenue amounts are presented exclusive of value added taxes. Revenue from rendering dispatching services related to electric power transmission and reliability control services is determined based on tariffs authorised and approved by the Federal service on tariffs ("FST").

In millions of Russian Roubles

(o) Leases

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present (discounted) value of the minimum lease payments. Subsequently, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and the related leased assets are not recognised on the Group's statement of financial position.

Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Note 4. Balances and transactions with related parties

The Group's related parties are :

- other government-related entities;
- members of the Company's Board of Directors and members of the Company's Management Board.

Government-related entities

In the normal course of business the Group enters into transactions with other government-related entities. Balances receivable and turnover of such transactions fpr such operations are presented below:

	For the year ended 31 December 2015	For the year ended 31 December 2014
Dispatch management fees	19 769	19 183
Purchase of goods, works and services	1 060	1 073
Purchase of Key management personnel services	339	327
	31 December 2015	**31 December 2014**
Accounts receivable	715	477
Cash and cash equivalents	3 287	3 148
Accounts payable	148	111

Dispatch services were provided to government-related entities on the same terms as those to the other companies at the set tariffs.

Compensation paid to members of the Board of Directors and members of the Management Board

Compensation is paid to the members of the Company's Management Board for their services at their management positions and is made up of a contractual salary, non-cash benefits and a performance bonus depending on results for the period according to Russian statutory financial statements. The compensation is approved by the Board of Directors.

Reward and compensation to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year.

The short-term compensations paid to the members of the Board of Directors and Management Board in monetary and non-monetary (medical insurance, provision of accommodation) forms amounted to RUB 339 million and RUB 327 million for the years 2015 and 2014, respectively.

In millions of Russian Roubles

Note 5. Property, plant and equipment

	Buildings	Electrical equipment	Computer, dispatching and communication equipment	Land	Other Property, Plant and Equipment	Construction in progress	TOTAL
Cost / Revalued amount							
Balance at 1 January 2015	13,273	2,434	12,788	712	1,024	3,063	33,294
Additions	61	54	1,894	28	87	2,866	4,990
Reclassifications	(4)	(17)	12	-	9	-	-
Transfer from construction in progress	517	73	741	-	19	(1,350)	-
Disposals	-	(53)	(274)	-	(18)	(24)	(369)
Balance at 31 December 2015	**13,847**	**2,491**	**15,161**	**740**	**1,121**	**4,555**	**37,915**
Accumulated depreciation and impairment loss							
Balance at 1 January 2015	**(44)**	**(1,482)**	**(8,386)**	-	**(521)**	**(4)**	**(10,437)**
Charge for the period	(218)	(246)	(1,839)	-	(113)	-	(2,416)
Disposals	-	25	259	-	14	-	298
Balance at 31 December 2015	**(262)**	**(1,703)**	**(9,966)**	-	**(620)**	**(4)**	**(12,555)**
Net book value as at 1 January 2015	**13,229**	**952**	**4,402**	**712**	**503**	**3,059**	**22,857**
Net book value as at 31 December 2015	**13,585**	**788**	**5,195**	**740**	**501**	**4,551**	**25,360**

In millions of Russian Roubles

	Buildings	Electrical equipment	Computer, dispatching and communication equipment	Land	Other Property, Plant and Equipment	Construction in progress	TOTAL
Cost / Revalued amount							
Balance at 1 January 2014	**12,434**	**2,237**	**11,284**	**695**	**951**	**1,394**	**28,995**
Additions	90	202	1,243	17	75	2,820	4,447
Reclassifications	-	(9)	10	-	(1)	-	-
Transfer from construction in progress	585	38	498	-	30	(1,151)	-
Disposals	(16)	(34)	(247)	-	(31)	-	(328)
Revaluation decrease recognised in equity	638	-	-	-	-	-	638
Revaluation decrease recognised in profit or loss	(95)	-	-	-	-	-	(95)
Elimination of depreciation of revalued assets	(363)	-	-	-	-	-	(363)
Balance at 31 December 2014	**13,273**	**2,434**	**12,788**	**712**	**1,024**	**3,063**	**33,294**
Accumulated depreciation and impairment loss							
Balance at 1 January 2014	**(230)**	**(1,260)**	**(7,047)**	**-**	**(431)**	**(4)**	**(8,972)**
Charge for the period	(177)	(255)	(1,582)	-	(116)	-	(2,130)
Disposals	-	33	243	-	26	-	302
Elimination of depreciation of revalued assets	363	-	-	-	-	-	363
Balance at 31 December 2014	**(44)**	**(1,482)**	**(8,386)**	**-**	**(521)**	**(4)**	**(10,437)**
Net book value as at 1 January 2014	**12,204**	**977**	**4,237**	**695**	**520**	**1,390**	**20,023**
Net book value as at 31 December 2014	**13,229**	**952**	**4,402**	**712**	**503**	**3,059**	**22,857**

In millions of Russian Roubles (RUB)

The table below provides information about the carrying amount of the property, plant and equipment of the "Buildings" class that would have been recognised in the financial statements if those assets continue to be accounted for at historical cost:

	Buildings
Cost	
Balance at 1 January 2015	**8 994**
Additions	59
Transfer from construction in progress	517
Balance at 31 December 2015	**9 570**
Accumulated Depreciation and Impairment	
Balance at 1 January 2015	**(824)**
Charge for the period	(126)
Balance at 31 December 2015	**(950)**
Net book value as at 1 January 2015	**8 170**
Net book value as at 31 December 2015	**8 620**

	Buildings
Cost	
Balance at 1 January 2014	**8,331**
Additions	90
Transfer from construction in progress	584
Disposals	(11)
Balance at 31 December 2014	**8,994**
Accumulated Depreciation and Impairment	
Balance at 1 January 2014	**(704)**
Charge for the period	(122)
Disposals	2
Balance at 31 December 2014	**(824)**
Net book value as at 1 January 2014	**7,627**
Net book value as at 31 December 2014	**8,170**

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation.

Depreciation is charged once an asset of property, plant and equipment is available for use.

As at 31 December 2015 property, plant and equipment, the carrying amount of RUB 419 million, are a debenture to secure bank loans. Collateral value of property, plant and equipment of RUB 118 million.

Revaluation Starting from 1 January 2007 the Group adopted the revaluation model for property, plant and equipment comprising the "Buildings" class (see Note 3).

Property, plant and equipment items comprising the "Buildings" class were revalued as at 1 January 2007, as at 31 December 2008, as at 31 December 2010, as at 31 December 2012 and as at 31 December 2014 by independent appraisers.

As at 31 December 2015 the management has estimated the possible change in fair value of property compared to the carrying amount as a insignificant. Revaluation was not carried out.

In millions of Russian Roubles (RUB)

Operating leases

The Group leases a number of land areas, buildings and other properties under operating lease. The lease payments due are determined based on the lease agreements and payable as follows:

	31 December 2015	31 December 2014
Under one year	588	590
Between one and five years	473	558
Over five years	1,153	897
Total	**2,214**	**2,045**

The above lease agreements are signed for 1 to 49 years for land areas and for short-term period (less than 1 year) for other properties with the right to extend for a longer period. The lease payments are subject to review on a regular basis to reflect market rent prices.

Note 6. Intangible assets

	Computer software and licences	Construction in progress (computer software SCADA/EMS system)	Development costs	Total
Initial Cost				
Balance at 1 January 2015	**4,351**	**1,194**	**219**	**5,764**
Additions	246	-	528	774
Transfer from construction in progress	673	-	(673)	
Disposals	(276)	-	31	(245)
Balance at 31 December 2015	**4,994**	**1,194**	**105**	**6,293**
Accumulated amortisation and impairment				
Balance at 1 January 2015	**(3,284)**	**-**	**-**	**(3,284)**
Charge for the period	(575)	-	-	(575)
Disposals	276	-	-	276
Balance at 31 December 2015	**(3,583)**	**-**	**-**	**(3,583)**
Net book value				
Balance at 1 January 2015	**1,067**	**1,194**	**219**	**2,480**
Balance at 31 December 2015	**1,411**	**1,194**	**105**	**2,710**
Initial Cost				
Balance at 1 January 2014	**3,765**	**1,135**	**183**	**5,083**
Additions	226	59	424	709
Transfer from construction in progress	372	-	(372)	-
Disposals	(12)	-	(16)	(28)
Balance at 31 December 2014	**4,351**	**1,194**	**219**	**5,764**
Accumulated amortisation and impairment				
Balance at 1 January 2014	**(2,739)**	**-**	**-**	**(2,739)**
Charge for the period	(557)	-	-	(557)
Disposals	12	-	-	12
Balance at 31 December 2014	**(3,284)**	**-**	**-**	**(3,284)**
Net book value				
Balance at 1 January 2014	**1,026**	**1,135**	**183**	**2,344**
Balance at 31 December 2014	**1,067**	**1,194**	**219**	**2,480**

In millions of Russian Roubles (RUB)

Note 7. Other non-current assets

	31 December 2015	31 December 2014
Advances to suppliers given to contractors for construction of Plant, Property and Equipment	1,056	834
Financial assets available-for-sale	77	93
Accounts receivable from buyers and customers	9	10
Non-current portion of value added tax recoverable	3	2
Total	**1,145**	**939**

Financial assets available-for-sale relate to the Group contributions accumulated in the solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

Note 8. Accounts receivable and prepayments

	31 December 2015	31 December 2014
Accounts receivable from buyers and customers (net of provision for impairment of RUB 601 million as at 31 December 2015 and RUB 505 million as at 31 December 2014)	577	829
Other receivables (net of provision for impairment of RUB 5 million as at 31 December 2015 and RUB 9 million as at 31 December 2014)	108	79
Financial accounts receivable	**685**	**908**
Advances to suppliers	37	30
Value added tax recoverable	51	112
Non-financial accounts receivable and prepayments	**88**	**142**
Total	**773**	**1,050**

Value added tax recoverable balances will be settled by means of offset against future tax liabilities.

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows. Management believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value of accounts receivable reflects their fair value.

In millions of Russian Roubles (RUB)

Note 9. Equity

Share capital

	31 December 2015	31 December 2014
Issued and fully paid:		
Registered share capital: Ordinary shares	2,576	2,576
Share premium	7,800	7,800
Total	**10,376**	**10,376**

As at 31 December 2015 the total number of authorised ordinary shares was 3,810,560,564 (31 December 2014: 3,810,560,564) with a nominal value per share of 1 (one) RUB each, including the issued, fully paid and registered ordinary shares of 2,576,367,429 (31 December 2014: 2,576,367,429).

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.

According to the order of the Federal Property Management Agency from 30 of june 2015 №540-p dividends were paid out in the amount of RUB 587 million for 2014.

Note 10. Current debt

The Group has not entered into hedging arrangements in respect of its foreign currency obligations or interest rate exposure.

Note 11. Retirement benefit obligations

Defined benefit plans

The Group has unfunded pension plan with a defined benefit, which includes:

- Lump sum payment upon retirement;
- Death benefits;
- Jubilee benefits;
- Non-state pension benefits;
- Regular financial support after retirement which includes annual payments for holidays.

The actuarial valuation of the Group's defined benefit obligations as at 31 December 2015 and 2014 was performed by an independent actuary.

As at 31 December 2015 the Group has 7,593 employees who are the active participants of pension and social security and also has 1,714 unemployed pensioners who are the recipients of financial support.

According to the pension contribution programme the Group makes payments to the Non-state Pension Fund of the Electric Power (further in the text – NPF), which accumulates the money received on pension accounts open according to contracts signed between the Group and NPF. In accordance with the terms of the accounts under contracts with NPF as well as the ability stipulated by the contract of termination of contracts and payment of the redemption amount to the Depositor, funds due to NPF does not meet the criteria for the definition of plan assets. Resources on NPF's electric power joint accounts and employees' personal accounts who do not receive state pensions are recognised as a Group's separate asset. As at 31 December 2015 the amount of the Group's separate asset is RUB 73 million.

In millions of Russian Roubles (RUB)

Revaluation effects of the defined benefit obligation are recognised in other comprehensive income.

Past service cost is recognised immediately in profit and loss.

Key actuarial assumptions used to measure the obligations are presented below:

Financial actuarial assumptions	31 December 2015	31 December 2014
Discount rate, (nominal)	9,50%	12,00%
Inflation rate	6,00%	7,00%
Future salary increases (nominal)	6,00%	7,00%

Financial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The average period over which the Group obligations are to be settled is 15.8 years.

Demographic actuarial assumptions	31 December 2015	31 December 2014
Expected retirement age		
Males	62	63
Females	57	57
Average rate of employee turnover (per year)	2,5%	2,9%
Mortality table	2011_adjusted	2011_adjusted

Assumptions regarding future mortality have been based on published 2011 Russia mortality table modified with following ratios based on statistics of the mortality of plan members both during and after employment: 75% for plan members during employment and 20% for plan members after employment.

The assumption of staff turnover was made on the basis of statistical data of the Group layoffs, turnover rate depends on the sex and age of workers and continuously decreases during seniority of workers. Averaged males rates point: at age 20 to 30 years – 11.3% per year, at age of 30 to 40 years – 2.1% per year, at age 40 to 50 years – 1.9% per year, at age of more than 50 – 1.6% per year.

Averaged females rates point: at age of 20 to 30 years – 8.6% per year, at age 30 to 40 years – 3.0% per year, at age of 40 to 50 years – 2.1% per year, at age of more than 50 – 1.4% per year.

Net defined benefit liability is as follows:

	31 December 2015	31 December 2014	31 December 2013
Net value of defined benefit obligation	1,985	1,853	1,793
Net value of Other long-term employee benefit obligation	233	141	132
Total net defined benefit liability	2,218	1,995	1,925

In millions of Russian Roubles (RUB)

Profits and losses recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	Year ended 31 December 2015			Year ended 31 December 2014		
	Post-employment benefits	Other long-term employee benefits	Total	Post-employment benefits	Other long-term employee benefits	Total
Profits and losses in the consolidated statement of profit or loss and other comprehensive income:						
Service cost:						
Current service cost	59	13	**72**	72	12	**84**
Past service cost as a result of changes in the plan	-	-	**-**	10	(1)	**9**
Net interest expense	207	15	**222**	133	9	**142**
Revaluation effects (for other long-term benefits):						
Actuarial losses/(gains) - experience	-	63	**63**	-	20	**20**
Actuarial gains - changes in actuarial assumptions	-	19	**19**	-	(15)	**(15)**
Total to be recognised in "profit and losses" in the consolidated statement of profit or loss and other comprehensive income:	**266**	**110**	376	**215**	**25**	240
Other comprehensive income in the consolidated statement of profit or loss and other comprehensive income::						
Revaluation effects (for post-employment benefits):						
Actuarial losses/(gains) - experience	(141)	-	**(141)**	358	-	**358**
Actuarial (gains) - changes in actuarial assumptions	132	-	**132**	(405)	-	**(405)**
Total to be recognised in "other comprehensive income" in the consolidated statement of profit or loss and other comprehensive income:	(9)	-	(9)	(47)		(47)

In millions of Russian Roubles (RUB)

Changes in the present value of the Group's defined benefit plan obligations are presented below:

	Year ended 31 December 2015			Year ended 31 December 2014		
	Post-employment benefits	Other long-term employee benefits	Total	Post-employment benefits	Other long-term employee benefits	Total
Benefit obligations at the period beginning	**1,854**	**141**	**1,995**	**1,793**	**132**	**1,925**
Current service cost	59	13	**72**	72	12	**83**
Interest cost	207	15	**222**	133	9	**142**
Past service cost as a result of changes in the plan	-	-	**-**	10	(1)	**9**
Actuarial losses/(gains) - experience	(141)	63	**(78)**	358	21	**379**
Actuarial gains - changes in finance assumptions	389	29	**418**	(729)	(48)	**(777)**
Actuarial losses - changes in demographic assumptions	(257)	(10)	**(267)**	324	33	**357**
Benefit payments	(126)	(18)	**(144)**	(108)	(16)	**(124)**
Benefit obligations at the period end	**1,985**	**233**	**2,218**	**1,853**	**142**	**1,995**

In millions of Russian Roubles (RUB)

Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is presented below:

	Change in assumption	Impact on liability	
Discount rate	Increase / decrease by 0.5%	Decrease/ Increase by	6.00%
Future salary increases	Increase / decrease by 0.5%	Decrease/ Increase by	1.53%
Future pension increases (inflation)	Increase / decrease by 0.5%	Decrease/ Increase by	4.68%
Employee turnover level	Increase / decrease by 10%	Decrease/ Increase by	0.72%
Mortality level	Increase / decrease by 10%	Decrease/ Increase by	2.31%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The amount of the expected payments isRUB 186 million to the defined long-term benefit plans for 2016.

The Group is exposed to a number of risks, the most significant of which are detailed below:

- Changes in government bond yields

  Decrease in profitability of government bonds will cause the increase of present value of the Group's defined benefit obligations.

- Inflation risk and employees' compensation increase risk

  The majority of the Group's pension obligations are linked to wage and salary level, while an increase in inflation affects directly on the increase of the Group employees' compensation. Higher inflation will lead to higher defined benefit liabilities to the Group's employees.

- Mortality level decrease risk

  The majority of the plans' obligations consist of one-time payments when a certain age or employment period is achieved, including retirement payments; the amount of such obligations depends also on the probability that an employee reaches an expected moment of repayment. In addition to mentioned benefit plans, the Group makes life-long payments to employees after retirement, and the amount of such obligations depends on life expectancy. A decrease in mortality level will result in an increase in the present value of the plans' liabilities.

In millions of Russian Roubles (RUB)

Note 12. Accounts payable

	31 December 2015	31 December 2014
Payroll liabilities	706	1,262
Accounts payable to suppliers and contractors	1,253	597
Other accounts payable	103	45
Total	**2,062**	**1,904**

Note 13. Taxes payable

	31 December 2015	31 December 2014
Value added tax	486	559
Insurance premiums in the non-budgetary funds	78	249
The tax on income of physical persons	302	110
Property tax	125	71
Other taxes	30	24
Total	**1,021**	**1,013**

Note 14. Operating expenses

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Wages, benefits and payroll taxes		(14,823)	(13,922)
Depreciation of property, plant and equipment and amortization of intangible assets	5, 6	(2,991)	(2,687)
Repairs and maintenance expenses		(1,142)	(1,218)
Services on regulation of frequency		(684)	(789)
Transportation expenses		(482)	(470)
Rental expenses		(384)	(402)
Consulting services		(361)	(362)
Telecommunication services		(366)	(342)
Taxes other than income tax		(339)	(319)
Business travel expenses		(256)	(274)
Research costs		(237)	(255)
Insurance expense		(233)	(242)
Utilities expenses		(226)	(214)
Expenses for the purchase of other materials		(188)	(205)
Provision for impairment of trade and other receivables	8, 19	(151)	(135)
The increase in the provision for impairment of property, plant and equipment	5	-	(95)
Other operating expenses		(980)	(707)
Total		**(23,843)**	**(22,638)**

In millions of Russian Roubles (RUB)

Note 15. Finance income and finance costs

	Year ended 31 December 2015	Year ended 31 December 2014
Interest expense	(4)	(5)
Interest expense on retirement benefit obligation	(222)	(142)
The effect of discounting of own promissory notes		-
Finance costs	**(226)**	**(147)**
Interest income	644	436
The effect of discount of non-current accounts receivable and prepayments		1
Foreign exchange gain	142	271
Finance income	**786**	**708**
Net finance income	**560**	**561**

Note 16. Income tax

	Year ended 31 December 2015	Year ended 31 December 2014
Current income tax	(875)	(816)
Adjustments in respect of current income tax of previous years	(1)	26
Deferred income/ (loss) tax benefit	97	83
Total income tax expense	**(779)**	**(707)**

During 2015 the Group was subject to a 20% income tax rate (in 2014: 20%).

Reconciliation between the theoretical and the actual income tax charge reflected in profit and loss statement is provided below:

	Year ended 31 December 2015	Year ended 31 December 2014
Profit before tax	**3 462**	**3 197**
Theoretical tax charge at the applicable tax rate	(692)	(639)
Tax effect of items which are not deductible or assessable for taxation purposes	(87)	(68)
Total income tax expense	**(779)**	**(707)**

Tax effects of components of other comprehensive income:

	Year ended 31 December 2015			Year ended 31 December 2014		
	Before tax	**Tax**	**After tax**	**Before tax**	**Tax**	**After tax**
Revaluation of property and plant equipment	-	-	-	638	(128)	510
Revaluation of available-for-sale financial assets	(1)	-	(1)	(1)	-	(1)
Actuarial gains / (losses) on defined benefit plans	9	(2)	7	47	(9)	38
Total	**8**	**(2)**	**6**	**684**	**(137)**	**547**

In millions of Russian Roubles (RUB)

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred income tax assets and liabilities are measured at 20%, the rate expected to be applicable when the assets or liabilities are realized.

Deferred income tax assets/(liabilities)	**1 January 2015**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2015**
Property, plant and equipment	(1,109)	29	-	(1,080)
Pension obligation	399	47	(2)	444
Accounts payable and accrued charges	170	2	-	172
Accounts receivable	(23)	3	-	(20)
Intangible assets	(33)	18	-	(17)
Others	36	(2)	-	34
Total deferred income tax assets/(liabilities), net	**(560)**	**97**	**(2)**	**(467)**

Deferred income tax assets/(liabilities)	**1 January 2014**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2014**
Property, plant and equipment	(1,042)	61	(128)	(1 109)
Pension obligation	385	23	(9)	399
Accounts payable and accrued charges	160	10	-	170
Accounts receivable	(19)	(4)	-	(23)
Intangible assets	(27)	(6)	-	(33)
Others	37	(1)	-	36
Total deferred income tax assets/(liabilities), net	**(506)**	**83**	**(137)**	**(560)**

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be sufficient to cover them. Temporary differences on property, plant and equipment relate to differences in depreciation rates and revaluation.

Note 17. Contractual obligations

Commitments for the acquisition of property, plant and equipment. Future capital expenditures for which contracts have been signed amounted to RUB 8,369 million as at 31 December 2015 (31 December 2014: RUB 8,369 million).

Note 18. Contingent assets and liabilities

Insurance

The insurance industry in the Russian Federation is in a developing state 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 in respect of 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.

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

Taxation

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 generally remains open for review by the tax authorities during the 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. The Group's Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. In the current enforcement climate under existing legislation, management believes that the Group does not have any significant liabilities for environmental damage.

Note 19. Financial instruments and risk management

The Company's activities are exposed to different risks from its use of financial instruments:

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

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Management Committee is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

In millions of Russian Roubles (RUB)

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The oversight role is assigned to Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures.

Financial instruments by categories:

	Loans and accounts receivable	Available for sale	Other financial liabilities	Total
At 31 December 2015				
Other non-current assets (Note 7)	9	-	-	9
Financial assets available for sale (Note 7)	-	77	-	77
Loans issued	93	-	-	93
Accounts receivable (Note 8)	685	-	-	685
Cash and cash equivalents	5,697	-	-	5,697
Total financial assets	**6,484**	**77**	**-**	**6,561**
Current loans and borrowings	-	-	10	10
Accounts payable (Note 12)	-	-	2,062	2,062
Total financial liabilities	**-**	**-**	**2,072**	**2,072**
At 31 December 2014				
Other non-current assets (Note 7)	10	-	-	10
Financial assets available for sale (Note 7)	-	93	-	93
Accounts receivable (Note 8)	908	-	-	908
Cash and cash equivalents	6,064	-	-	6,064
Total financial assets	**6,982**	**93**	**-**	**7,075**
Current loans and borrowings (Note 10)	-	-	7	7
Accounts payable (Note 12)	**-**	**-**	**1,904**	**1,904**
Total financial liabilities	**-**	**-**	**1,911**	**1,911**

Credit risk

Financial assets which potentially subject the Group to concentrations of credit risk consist of cash and cash equivalents and trade receivables principally.

At the reporting date the maximum exposure to credit risk was:

	Book value	
	At 31 December 2015	**At 31 December 2014**
Accounts receivable (Note 8)	685	908
Loans issued	93	-
Cash and cash equivalents	5,697	6,064
Total financial assets	**6,475**	**6,972**

In millions of Russian Roubles (RUB)

a) Cash

The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening.

Cash in bank	Rate	Rating agency	31 December 2015	31 December 2014
JSC The All-Russia Bank of Development of Regions	**Ba3** (rating outlook negative)	Moody's Investors Service	3,000	3,033
CJSC Raiffeisenbank Austria	**Ba2** (rating outlook stable)	Moody's Investors Service	2,472	2,542
VTB 24 (PJSC)	**Ba2** (rating outlook negative)	Moody's Investors Service	156	28
JSC VTB	**Ba2** (rating outlook negative)	Moody's Investors Service	41	77
JSC Eurofinance Mosnarbank	**B1** (rating outlook stable)	Moody's Investors Service	22	81
Other	-	-	6	303
Total cash and cash equivalents			**5,697**	**6,064**

b) Accounts receivable

Credit risk related to accounts receivable is managed at the Group level. In most cases the Group does not calculate their customers' credit status but rates their creditworthiness on the basis of the financial position, prior experience and other factors.

The Group's customers are mainly represented by electricity utilities entities. The table below shows the receivables from major customers at the reporting dates:

	At 31 December 2015	At 31 December 2014
TGK-2	114	137
Yuzhno-Kuzbasskaya GRES	36	15
Tveskaya generatsiya	20	13
Mosenergosbyt	14	14
Lukoil-volgogradenergo	9	7
Saint Petersburg Power Supply Company	6	6
Mondi SLPK	6	23
Rusenergosbyt	6	6
Irkutskenergo	-	137
Enel OGK-5	-	103
Others	474	447
Total	**685**	**908**

Credit risks related to accounts receivable are systematically considered when the provision for doubtful debts is made. The present amount of accounts receivable, net of the provision for doubtful debts, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for doubtful debts already recorded.

The movement in the allowance for impairment in respect of trade receivables (see Note 8) during the year is provided below:

In millions of Russian Roubles (RUB)

	2015	2014
Balance at 1 January	514	379
Increase during the year	196	179
Decrease due to reversal of amounts written off	(45)	(44)
Amounts written off to decrease in trade receivables	(59)	
Balance at 31 December	**606**	**514**

The Group uses the provision for impairment of receivables to record receivables impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

As at 31 December 2015 the receivables past due for which no allowance was recorded amounted to RUB 225 million (at 31 December 2014: RUB 266 million). Management believes that due to established long-lasting nature of business relations with counterparties, the delays in settlement of obligations will not impact the inflow of economic benefits.

The table below shows the aging of the receivables:

	At 31 December 2015		At 31 December 2014	
	Book value	**Impairment**	**Book value**	**Impairment**
Not past due	459	5	641	9
Past due 0 to 1 months	75	1	70	-
Past due 1 to 3 months	90	85	96	14
Past due 3 to 6 months	135	56	139	76
Past due 6 months to 1 year	233	194	204	164
Past due more than 1 year	298	265	271	251
Total	**1,291**	**606**	**1,421**	**514**

Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company applies procedures with the objective of minimising such losses, such as maintaining sufficient cash and other highly liquid assets.

Information about the financial liability contractual maturity dates, including the estimated amounts of interest payments as at 31 December, is provided below:

	Book value	Contractual value	0 to 12 months	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Over 5 years
At 31 December 2015								
Current loans and borrowings	10	10	10					
Accounts payable	2,062	2,062	2,062					
Total	**2,072**	**2,072**	**2,072**					
	Book value	**Contractual value**	**0 to 12 Months**	**1 year to 2 years**	**2 years to 3 years**	**3 years to 4 years**	**4 years to 5 years**	**Over 5 years**
At 31 December 2014								
Current loans and borrowings	7	7	7	-	-	-	-	-
Accounts payable	1,904	1,904	1,904	-	-	-	-	-
Total	**1,911**	**1,911**	**1,911**	-	-	-	-	-

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

The Group is exposed to to market risk from changes in prices. The risk of price changes are subject to (a) assets and liabilities in foreign currencies, and (b) interest bearing assets and liabilities, all of which are exposed to general and specific market changes. Management sets limits on the boundaries of the market price changes, which are monitored daily. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market changes.

a) *Foreign exchange risk.* The Group operates within the Russian Federation. The majority of purchases and borrowings are denominated in RUB. The Group does not have arrangements to hedge foreign exchange risks associated with committed transactions.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on conventional(nominal) amounts:

In millions of	**RUB 2015**	**EUR 2015**	**RUB 2014**	**EUR 2014**
Cash	844	12	792	12
Gross exposure	844	12	792	12
Net exposure	844	12	792	12

The following significant exchange rates applied during the year:

in RUB	**Average rate**		**Reporting date spot rate**	
	2015	**2014**	**2015**	**2014**
EUR	67.9915	50.8150	72.8827	68.3427

Sensitivity analysis

A strengthening of the RUB against the euro at 31 December would have increased (decreased) profit or loss before taxes by the amounts shown below.. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2014.

Effect in millions of RUB	**Strengthening**	**Weakening**
	Profit or loss	**Profit or loss**
31 December 2015	42	(42)
EUR (5% movement)		
31 December 2014		
EUR (5% movement)	40	(40)

b) *Interest rate change risk.* The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long term borrowings. The Group has no significant interest bearing asset.

In millions of Russian Roubles (RUB)

Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimize potential adverse effect on the financial performance of the Group.

Fair value

Management believes that the fair value of financial assets and liabilities is not significantly different from their carrying amounts. The carrying amount of accounts receivable of buyers and customers, net of allowance for impairment expected to approximate fair assessment in connection with the short-term nature of the receivables. The fair value of financial liabilities for disclosure purposes in the financial statements was determined by discounting the future cash flows arising from contracts using current market interest rates for financial instruments that are similar to the Group's financial instruments.

The maximum exposure to each type of risk is limited by fair value of each class of financial instruments.

	31 December 2015		31 December 2014	
	Book value	Fair value	Book value	Fair value
Other non-current assets (Note 7)	9	9	10	10
Financial assets available-for-sale (Note 7)	77	77	93	93
Loans issued	93	93	-	-
Accounts receivable (Note 8)	685	685	908	908
Cash and cash equivalents	5 697	5 697	6,064	6,064
Current borrowings (Note 10)	10	10	7	7
Accounts payable (Note 12)	2 062	2 062	1,904	1,904