PJSC MOESK

Consolidated Financial Statements for the year ended 31 December 2015 and Auditors' Report

Contents

RSM RUS LTD
4 Pudovkina street,
Moscow, 119285, Russia
T: +7 495 363 2848
F: +7 495 981 4121
E: mail@rsmrus.ru
www.rsmrus.ru

04.04.2016 № РСМ-2100

THIS IS THE TRANSLATION OF THE ORIGINAL DOCUMENT PREPARED IN RUSSIAN

Auditor's Report
On the 2015 Consolidated Financial Statements

To: the Shareholders of PJSC "MOESK"

Audited entity:
Moscow United Electric Grid Company, Public Joint Stock Company (abbreviated name - **PJSC MOESK**);
Location: 3/2, 2nd Paveletskiy proezd, Moscow, 115114, the Russian Federation;
Primary state registration number – 1057746555811.

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 PJSC MOESK, 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 PJSC MOESK 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 PJSC MOESK 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

"РСМ РУСЬ" МОСКВА

Audit Manager **N.S. Lopatkina**

Audit Certificate No. 05-000050. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 30 December 2011 No. 28. Permanent award.

ORNZ – 21005008446

	Note	2015 '000 RUB	2014 '000 RUB
Revenue	6	132 355 657	128 018 249
Operating expenses, net	7	(111 486 082)	(119 827 084)
Other operating income	9	3 028 647	6 208 113
Profit from operating activities		**23 898 222**	**14 399 278**
Finance income	10	974 506	566 528
Finance costs	10	(5 232 285)	(3 560 171)
Profit before income tax		**19 640 443**	**11 405 635**
Income tax expense	11	(7 009 650)	(3 327 278)
Profit for the year		**12 630 793**	**8 078 357**
Items that will never be reclassified to profit or loss			
Remeasurements of the defined benefit liability	23	(310 398)	349 874
Tax on defined benefit liability		62 080	(69 975)
Other comprehensive (expense)/income for the year, net of tax		**(248 318)**	**279 899**
Total comprehensive income for the year		**12 382 475**	**8 358 256**
Profit attributable to:			
Owners of the Company		12 521 883	8 014 771
Non-controlling interest		108 910	63 586
		12 630 793	**8 078 357**
Total comprehensive income attributable to:			
Owners of the Company		12 273 565	8 294 670
Non-controlling interest		108 910	63 586
Basic and diluted earnings per ordinary share (in Russian Roubles)	21	**0,2571**	**0.1646**

These consolidated financial statements were approved on 4 April 2016 by:

General Director

P.A. Sinytin

First Deputy General Director
for Finance and Economic Activity
and Corporate management

A.V. Inozemtsev

The consolidated statement of Profit and 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 61.

	Note	31 December 2015 '000 RUB	31 December 2014 '000 RUB
Assets			
Non-current assets			
Property, plant and equipment	12	289 911 674	273 668 067
Intangible assets	13	2 057 681	1 290 221
Other non-current assets	15	4 499 597	5 067 246
Total non-current assets		**296 468 952**	**280 025 534**
Current assets			
Inventories	17	2 650 183	2 294 574
Income tax receivable		201 191	-
Trade and other receivables	18	25 896 936	23 407 990
Current investments	14	-	550 000
Cash and cash equivalents	19	400 645	4 305 289
Total current assets		**29 148 955**	**30 557 853**
Total assets		**325 617 907**	**310 583 387**
Equity and liabilities			
Equity			
Share capital	20	24 353 546	24 353 546
Additional paid in capital		18 580 888	18 580 888
Retained earnings		126 298 271	115 659 250
Total equity attributable to the shareholders of OJSC MOESK		**169 232 705**	**158 593 684**
Non-controlling interest		-	431 985
Total equity		**169 232 705**	**159 025 669**
Non-current liabilities			
Loans and borrowings	22	65 873 623	52 729 724
Employee benefits	23	3 722 930	3 389 496
Deferred tax liabilities	16	15 532 079	9 701 911
Trade and other payables	25	9 464 365	9 343 529
Total non-current liabilities		**94 592 997**	**75 164 660**
Current liabilities			
Loans and borrowings	22	8 147 510	21 554 011
Income tax payable		7 558	883 845
Other taxes payable	26	1 695 015	599 607
Trade and other payables	25	51 645 855	52 800 050
Provisions	24	296 267	555 545
Total current liabilities		**61 792 205**	**76 393 058**
Total equity and liabilities		**325 617 907**	**310 583 387**

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 61.

	Attributable to shareholders of the Group				Non-controlling interest	Total equity
	Share capital	**Additional paid in capital**	**Retained earnings**	**Total**		
	'000 RUB	**'000 RUB**	**'000 RUB**	**'000 RUB**	**'000 RUB**	**'000 RUB**
Balance at 1 January 2014	**24 353 546**	**18 580 888**	**110 274 829**	**153 209 263**	**368 399**	**153 577 662**
Profit for the year	-	-	8 014 771	8 014 771	63 586	8 078 357
Other comprehensive income	-	-	279 899	279 899	-	279 899
Total comprehensive income for the year	-	-	**8 294 670**	**8 294 670**	**63 586**	**8 358 256**
Dividends to shareholders (Note 20)	-	-	(2 910 249)	(2 910 249)	-	(2 910 249)
Balance at 31 December 2014	**24 353 546**	**18 580 888**	**115 659 250**	**158 593 684**	**431 985**	**159 025 669**
Balance at 1 January 2015	**24 353 546**	**18 580 888**	**115 659 250**	**158 593 684**	**431 985**	**159 025 669**
Profit for the year	-	-	12 521 883	12 521 883	108 910	12 630 793
Other comprehensive expense	-	-	(248 318)	(248 318)	-	(248 318)
Total comprehensive income for the year	-	-	**12 273 565**	**12 273 565**	**108 910**	**12 382 475**
Acquisition of subsidiary with non-controlling interests			420 895	420 895	(540 895)	(120 000)
Dividends to shareholders (Note 20)	-	-	(2 055 439)	(2 055 439)	-	(2 055 439)
Balance at 31 December 2015	**24 353 546**	**18 580 888**	**126 298 271**	**169 232 705**	-	**169 232 705**

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 61.

	2015 '000 RUB	2014 '000 RUB
Cash flows from operating activities		
Profit for the period	**12 630 793**	**8 078 357**
Adjustments for:		
Depreciation and amortisation (Note 7)	20 769 969	20 592 783
Income tax expense (Note 11)	7 009 650	3 327 278
Finance costs (Note 10)	5 232 285	3 560 171
Property received free of cash (Note 12(e))	(4 006 467)	(5 054 148)
Allowance for impairment of accounts receivable	(1 492 538)	3 254 308
Finance income (Note 10)	(974 506)	(566 528)
Provisions for legal claims (Note 24)	312 749	202 298
Loss on disposal of property, plant and equipment	148 869	1 226 842
Impairment losses on property, plant and equipment (Note 12)	17 523	5 596 990
Loss/(gain) on disposal of inventory	9 644	(31 932)
Provision for inventory obsolescence	6 785	(13 803)
Other non-cash items	(202 716)	(65 070)
Operating profit before changes in working capital	**39 462 040**	**40 107 546**
Change in trade and other payables	(2 895 188)	985 586
Change in taxes payable, other than income tax	1 095 408	304 940
Change in trade and other receivables, non-current advances given for connection services	(766 545)	(2 418 335)
Change in inventories	(371 195)	39 983
Change in retirement benefit obligations and related assets	(339 823)	(690 533)
Cash flows from operations before income taxes and interest expenses	**36 184 697**	**38 329 187**
Interest paid	(7 292 948)	(5 135 329)
Income taxes paid	(2 194 880)	(2 440 022)
Net cash from operating activities	**26 696 869**	**30 753 836**
Cash flows from investing activities		
Acquisition of property plant and equipment	(28 804 756)	(40 061 215)
Acquisition of intangible assets (Note 13)	(929 404)	(864 021)
Interest received	994 580	554 490
Proceeds from loans issued	550 000	454 000
Proceeds from disposal of property, plant and equipment	15 292	182 952
Loans issued	-	(1 004 000)
Net cash used in investing activities	**(28 174 288)**	**(40 737 794)**
Cash flows from financing activities		
Repayment of borrowings	(27 684 413)	(11 501 718)
Proceeds from borrowings	27 460 389	27 117 321
Dividends paid (Note 20)	(2 055 439)	(2 910 249)
Acquisition of non-controlling interests	(120 000)	-
Payment of finance lease liabilities	(27 762)	(12 373)
Net cash from/(used in) financing activities	**(2 427 225)**	**12 692 981**
Net increase/(decrease) in cash and cash equivalents	**(3 904 644)**	**2 709 023**
Cash and cash equivalents at beginning of year	4 305 289	1 596 266
Cash and cash equivalents at end of year (Note 19)	**400 645**	**4 305 289**

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 61.

Notes to the Consolidated Financial Statements for the year ended 31 December 2015

CONTENT

1 Background

(a) Organisation and operations

Public Joint-Stock Company "Moscow United Electric Grid Company" (PJSC MOESK or the "Company") was established on 1 April 2005 by transfer of assets and activities related to the electricity transmission of OJSC Mosenergo, a subsidiary of RAO UES of Russia, within the framework of Russian electricity sector restructuring in accordance with Resolution No. 1 adopted by shareholders of OJSC Mosenergo on 29 June 2004.

The new brand title of the company's organizational and legal form was approved At the Annual General Shareholders' Meeting held on 24 June 2015. Open Joint Stock Company Moscow United Electric Grid Company was changed to Public Open Joint Stock Company Moscow United Electric Grid Company.

The consolidated financial statements of PJSC MOESK and its subsidiaries (the "Group") were prepared as at 31 December 2015 and for the period then ended. The Group's consolidated financial statements include the following subsidiaries:

No.	Subsidiary	Type of activity	Share. %
1	OJSC Moskabel'set'montaj (MKSM)	Maintenance and engineering services	100 %
2	OJSC Moskabel'energoremont (MKER)	Maintenance and engineering services	100 %
3	OJSC Repair of Electrical and Technical Equipment Plant (RETEP)	Maintenance and engineering services	100 %
4	OJSC Energocentr	Connection services	100 %

The ultimate beneficiary and parent entity of the Group is Rosseti.

As at 31 December 2015, the Government of the Russian Federation owned 85.31% shares of PJSC Rosseti (formerly OJSC "IDGC Holding") (at 31 December 2014 – 85.31%), which in turn owned 50.9% of the ordinary shares of the Company. OJSC "IDGC Holding" was renamed PJSC "Rosseti" following the decision made on 23 March 2013 at an Extraordinary General Meeting of Shareholders of OJSC "IDGC Holding".

The Company's registered office and the actual address is building 3/2, 2nd Paveletskiy proezd, Moscow, 115114, Russian Federation.

The Group's principal activity is electricity transmission through electrical networks located in Moscow and the Moscow Region. The Group also provides connection services as part of its core operations.

(b) Russian business environment

For the year ended 31 December 2015 and 2014, 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. The Rouble interest rates remained high after the Central Bank of Russia raised its key rate to 17% followed by the decrease 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. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company'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 thousand.

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare the consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying 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 and assumptions that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 12 – Property, plant and equipment;
- Note 16 – Deferred tax assets and liabilities;
- Note 18 – Trade and other receivables;
- Note 23 – Employee benefits;
- Note 24 – Provisions;
- Note 27 – Financial risk management;
- Note 29 – Commitments.

(e) Changes in accounting policies

In 2015 the Group applied for the first time certain new standards and amendments, which are effective for the annual periods beginning on or after 1 January 2015. The nature and the impact of each new standards and amendment is described below, however, they did not significantly impact the consolidated financial statements:

- *Defined Benefit Plans: Employee Contributions* – Amendments to IAS 19 Employee Benefits. The amendment allows 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 2010-2012 Cycle* include:
    - IFRS 8 *Operating Segments*

The amendments are applied retrospectively and clarify that:

- an entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';

- the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in these consolidated financial statements (Note 5) as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

- 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. This amendment disclosed in Note 30 (b).

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, except as explained in Note 2 (e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) 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. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

Any contingent consideration payable is recognised 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 recognised in profit or loss.

(ii) 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 recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. 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 applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(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 as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(v) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of a subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, than such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Transactions eliminated on consolidation

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

(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 retranslated to the functional currency at the exchange rate at that date.

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

The Group initially recognises loans and receivables at fair value on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to 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 recognised as a separate asset or liability.

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 them on a net basis or to realise the asset and settle the liability simultaneously.

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

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories or are not . Such assets are recognised 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, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities at initial recognition of three months or less.

(ii) Non-derivative financial liabilities

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

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

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at the date of transition to IFRS, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

When 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.

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 on a net basis within other income/expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised 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 costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised 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	20 to 40 years;
• Transmission networks	18 years;
• Transformers and transformer substations	13 to 16 years;
• Other	4 to 8 years.

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

(e) Intangible assets

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

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

Amortisation is recognised 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. The estimated useful lives of intangible assets are 2 to 9 years.

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

(f) Leased assets

Leases in terms of which the Group assumes 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 value of the minimum 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 recognised in the Group's statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, 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 realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Non-derivative 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 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. 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 in respect of a financial asset measured at amortised 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 recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Impairment losses on available-for-sale financial assets are recognised 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 amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to 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 recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(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. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or a 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 a CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

(i) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit post-employment plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. 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.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised immediately in profit or loss.

Remeasurements of the net defined benefit liability comprise actuarial gains and losses which are resulting from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in financial and demographical actuarial assumptions. Remeasurements of the net defined benefit liability is recognized immediately in other comprehensive income.

(iii) Other non-current employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related 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. The calculation is performed using the projected unit credit method. Any remeasurements are recognised 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 recognised 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.

(j) Provisions

A provision is recognised 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.

(k) 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 transmission

Revenue from electricity transmission is recognised in profit or loss based on an act of services rendered containing the physical volume of electricity distributed. The act is prepared based on a monthly report of electricity consumption (prepared in physical volumes) for each customer. The tariffs for electricity transmission on regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Service on Tariffs.

(ii) Connection services

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services.

(iii) Other services

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

(l) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised 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.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

Determining whether an arrangement contains a lease

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

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

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(m) Finance income and costs

Finance income comprises interest income on cash balances, bank deposits and foreign currency gains. For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available for sale interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings, employee benefits and finance leases, foreign currency losses.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income and expense is included in finance income and finance cost in the statement of profit or loss and other comprehensive income.

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

(n) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of 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 recognised 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 related to investments in subsidiaries and joint operationscontrolled entities to the extent that it is probable that they will not reverse in the foreseeable future; and

- taxable temporary differences arising on the initial recognition of goodwill.

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.

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 realised simultaneously.

In accordance with additions to part one of the Tax code of Russian Federation, under the Federal law of the Russian Federation of November 16, 2011 No. 321-FZ Group has ability but not created the consolidated group of taxpayers.

The tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised 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 they can be utilised. 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 realised.

(o) Earnings per share

Basic earning per share 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 reporting period. The Company does not have dilutive potential ordinary shares.

(p) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see Note 5).

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

(q) 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 these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt the following pronouncements 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. Since the Group is an existing IFRS preparer, this standard would not apply.

- 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 a new 'expected credit loss' model that will require a more timely recognition of expected credit losses. The standard 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 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 requirements for related disclosures. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group is currently assessing impact of IFRS 15 on its consolidated financial statements. The Group does not intend to adopt this standard early.

- IFRS 16 *Leases*. IFRS 16 is single guidance for lease accounting and contains requirements for related disclosures. The new standard replaces IAS 17 *Leases* and the related interpretations on lease. The standard 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 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.

- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates* entitled *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. These narrow scope amendments clarify, that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not), and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted. These amendments are not expected to have any impact on the Group.

- Various *Annual Improvements 2012-2014 Cycle* are effective for annual periods beginning on or after 1 January 2016. They include:

  - 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.

  - 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. This amendment is not expected to have any impact on the Group.

- Amendments to IAS *1 Disclosure Initiative*

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- 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(s) 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.

- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates*, entitled *Investment Entities: Applying the Consolidation Exception.* The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and 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.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require determination of fair value, for financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to the respective asset or liability.

(a) Equity and debt securities

The fair value of available-for-sale financial assets and held-to-maturity investments is determined by reference to their quoted closing bid price at the reporting date. The fair value of investments in unquoted debt securities is determined based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The fair value of investments is determined for disclosure purposes only.

(b) Trade and other receivables

The fair value of non-current trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Management believes that the fair value of current trade and other receivables approximates their carrying amount.

(c) Non-derivative financial liabilities

The fair value of financial liabilities, which is calculated for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of issued bonds, the fair value is determined by reference to their quoted closing price at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Operating segments

Operating segments are identified on the basis of internal reports on components of the Group that are reviewed each quarter by the Board of Directors, the chief operating decision maker, to allocate resources to a segment and assess its performance.

Management has determined the following reportable segments:

- Electricity transmission in Moscow;
- Electricity transmission in the Moscow region;
- Connection services in Moscow;
- Connection services in the Moscow region.

Other activities mainly represent rental income, installation services, repair and technical maintenance of electrical equipment, which have been included in the segment "other". None of these items meets any of the quantitative thresholds for determining reportable segments in 2015 or 2014.

Segment operating results that are reported to the Board of Directors are determined based on the income and expenses calculated in accordance with Russian Accounting Standards. Segment operating results represent the profit earned by each segment without allocation of finance income and expenses and other income and expenses which are included in "unallocated" component.

The difference between external revenues and revenue reported in consolidated statement of profit an loss and other comprehensive income for 2015 is due to recognition of income under agreements on compensation of losses as other revenues.

The segment revenue and profit before income tax for the year ended 31 December 2015 are as follows:

'000 RUB	Electricity transmission	Connection services	Other	Total
Revenues				
External revenues	117 682 677	10 520 854	1 730 942	129 934 473
Moscow	58 402 724	6 855 118	1 273 881	66 531 723
Moscow Region	59 279 953	3 665 736	457 061	63 402 750
Inter-segment revenue	-	-	2 737 911	2 737 911
Moscow	-	-	1 783 081	1 783 081

Moscow Region	-	-	954 830	954 830
Depreciation and amortisation	24 297 863	-	80 022	24 377 885
Moscow	13 121 730	-	63 660	13 185 390
Moscow Region	11 176 133	-	16 362	11 192 495
Reportable segment profit	5 849 097	9 301 015	614 052	15 764 164
Moscow	3 725 010	6 135 002	473 955	10 333 967
Moscow Region	2 124 087	3 166 013	140 097	5 430 197

Other material items are as follows:

'000 RUB	**Reportable segment totals**	**Adjustments**	**Consolidated totals**
Depreciation and amortisation	(24 377 885)	3 607 916	(20 769 969)
Capital expenditure	(36 583 650)	(546 313)	(37 129 963)
Impairment losses on property, plant and equipment	-	(17 523)	(17 523)
Income tax expense	(4 324 959)	(2 684 691)	(7 009 650)

Comparative segment revenue and profit before income tax for the year ended 31 December 2014 are as follows:

'000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Total**
Revenues				
External revenues	112 508 624	11 837 363	1 242 335	125 588 322
Moscow	56 738 984	7 542 985	900 313	65 182 282
Moscow Region	55 769 640	4 294 378	342 022	60 406 040
Inter-segment revenue	-	531 510	1 979 531	2 511 041
Moscow	-	-	1 344 892	1 344 892
Moscow Region	-	531 510	634 639	1 166 149
Depreciation and amortisation	22 138 992	-	82 387	22 221 379
Moscow	12 033 243	-	68 581	12 101 824
Moscow Region	10 105 749	-	13 806	10 119 555
Reportable segment profit	5 135 107	10 931 936	500 535	16 567 578
Moscow	4 999 153	6 987 870	459 257	12 446 280
Moscow Region	135 954	3 944 066	41 278	4 121 298

Other material items are as follows:

'000 RUB	**Reportable segment totals**	**Adjustments**	**Consolidated totals**
Depreciation and amortisation	(22 221 379)	1 628 596	(20 592 783)
Capital expenditure	(45 896 342)	(1 968 927)	(47 865 269)

'000 RUB	**Reportable segment totals**	**Adjustments**	**Consolidated totals**
Impairment losses on property, plant and equipment	-	(5 596 990)	(5 596 990)
Income tax expense	(4 973 584)	1 646 306	(3 327 278)

Reconciliation of reportable segment profit:

'000 RUB	**2015**	**2014**
Reportable segments profit	15 150 111	16 067 043
Other profit or loss	614 052	500 535
Unallocated	(2 286 088)	(4 620 418)
Total profit before income tax per Russian Accounting Standards	**13 478 075**	**11 947 160**
Borrowing costs capitalized	9 507	216 369
Expenses associated with leased property, plant and equipment	237 150	209 795
Goin/(loss) on disposal of property, plant and equipment	2 014	(67 073)
Depreciation and amortisation	3 771 272	1 634 724
Provision for legal claims	(175 736)	-
Reversal/(allowance for impairment) of account receivable and advances for capital expenditure	1 960 888	348 682
Effect of loan discounting	(65 462)	(56 368)
Impairment loss on property, plant and equipment	(17 523)	(5 596 990)
Accrued expenses for connection services	262 920	2 072 821
Accrued employee benefits plan liabilities	(23 036)	517 903
Other items	200 374	178 612
Consolidated profit before income tax per IFRS	**19 640 443**	**11 405 635**

Major customer

In 2015, revenue from one customer of the Group's electricity transmission in Moscow and Moscow region segments represented approximately 94% (RUB 124 054 485 thousand) of the Group's total revenue (2014: 78%; RUB 99 597 646 thousand).

Segment assets are presented in the table below:

'000 RUB	Electricity transmission	Connection services	Other	Unallocated	Total
31 December 2015					
Total assets	**310 927 430**	**6 188 173**	**4 275 494**	**22 322 997**	**343 714 094**
Moscow	203 905 108	5 582 066	3 399 289	-	212 886 463
Moscow Region	107 022 322	606 107	876 205	-	108 504 634
Unallocated	-	-	-	22 322 997	22 322 997
Capital expenditure	**36 295 226**	**256 972**	**31 452**	**-**	**36 583 650**
Moscow	19 679 660	-	31 222	-	19 710 882
Moscow Region	16 615 566	256 972	230	-	16 872 768
31 December 2014					
Total assets	**294 399 500**	**14 583 548**	**4 029 388**	**24 745 187**	**337 757 623**
Moscow	192 667 464	12 442 743	3 046 131	-	208 156 338
Moscow Region	101 732 036	2 140 805	983 257	-	104 856 098
Unallocated	-	-	-	24 745 187	24 745 187
Capital expenditure	**45 494 246**	**373 963**	**28 134**	**-**	**45 896 343**
Moscow	23 760 935	-	26 975	-	23 787 910
Moscow Region	21 733 311	373 963	1 159	-	22 108 433

Reconciliation of reportable segments assets:

'000 RUB	2015	2014
Reportable segments assets	317 115 603	308 983 048
Other assets	4 275 494	4 029 388
Unallocated	22 322 997	24 745 187
Total assets per Russian Accounting Standards	**343 714 094**	**337 757 623**
Inventories	(183 889)	(379 151)
Advances given	(1 053 142)	(6 815 635)
Property, plant and equipment	(1 387 192)	(6 415 378)
Impairment losses on property, plant and equipment	(5 614 513)	(5 915 896)
(Allowance)/reversal for impairment of account receivable and advances for capital expenditure	(30 780)	3 718 064
Deferred tax assets	(2 170 446)	(4 413 089)
Other items	(1 367 646)	38 399
Eliminations of unallocated and intragroup balances	(6 288 579)	(6 991 550)
Consolidated assets per IFRS	**325 617 907**	**310 583 387**

Segment assets that are reported to the Board of Directors are determined in accordance with Russian Accounting Standards. Segment assets represent the assets of each segment without allocation of VAT, cash and cash equivalents, inventory and investments, which are included in "unallocated" component.

Segment liabilities are presented in the table below:

'000 RUB	Electricity transmission	Connection services	Other	Unallocated	Total
31 December 2015					
Total liabilities	**89 829 354**	**40 342 264**	**1 385 651**	**15 699 050**	**147 256 319**
Moscow	83 244 265	27 378 479	927 359	-	111 550 103
Moscow Region	6 585 089	12 963 785	458 292	-	20 007 166
Unallocated	-	-	-	15 699 050	15 699 050
31 December 2014					
Total liabilities	**89 590 892**	**44 494 723**	**1 164 389**	**13 330 952**	**148 580 956**
Moscow	84 114 962	28 620 543	624 819	-	113 360 324
Moscow Region	5 475 930	15 874 180	539 570	-	21 889 680
Unallocated	-	-	-	13 330 952	13 330 952

Reconciliation of reportable segments liabilities:

'000 RUB	2015	2014
Reportable segments liabilities	130 171 617	134 085 615
Other liabilities	1 385 652	1 164 389
Unallocated	15 699 050	13 330 952
Total liabilities per Russian Accounting Standards	**147 256 319**	**148 580 956**
Finance lease liabilities	150 635	201 238
Deferred tax liabilities	8 654 801	3 611 640
Employee benefits	3 722 930	3 389 496
Effect of discounting	(280 165)	(345 353)
Other items	156 436	(26 199)
Eliminations of unallocated and intragroup balances	(3 275 754)	(3 854 060)
Consolidated liabilities per IFRS	**156 385 202**	**151 557 718**

Segment liabilities that are reported to the Board of Directors are determined in accordance with Russian Accounting Standards. Segment liabilities represent the liabilities of each segment without allocation of VAT, deferred tax liabilities and deferred income, which are included in "unallocated" component.

6 Revenue

	2015 '000 RUB	2014 '000 RUB
Electricity transmission	117 682 677	112 508 624
Revenue from connection services	10 520 854	11 893 009
Other revenue	4 152 126	3 616 616
	132 355 657	**128 018 249**

Revenue from connection services represents services related to connection of customers' power consumers to the electricity network of the Group.

Other revenues includes income from compensation of losses related to connection services in the amount of RUB 2 390 105 thousand (2014: RUB 2 157 155 thousnad), installation services, technical maintenance of electrical equipment and rental income.

7 Operating expenses, net

	2015 '000 RUB	2014 '000 RUB
Electricity transmission	(58 089 182)	(57 152 524)
Depreciation and amortisation	(20 769 969)	(20 592 783)
Personnel costs (Note 8)	(17 888 242)	(16 361 955)
Repairs, maintenance and installation services	(2 374 575)	(3 907 132)
Raw materials and supplies	(2 253 842)	(1 846 399)
Taxes other than income tax	(2 142 033)	(1 798 674)
Allowance for impairment of trade and other receivables, prepayments and non-current assets	1 492 538	(3 324 619)
Consulting, legal, audit services including professional training	(1 017 539)	(808 496)
Rent	(882 603)	(878 743)
Insurance	(824 339)	(788 682)
Registration of rights to property	(784 205)	(799 112)
Telecommunication services	(762 465)	(831 766)
Private security services	(553 918)	(576 257)
Transportation	(402 562)	(351 142)
Provision for legal claims	(312 749)	(202 298)
Electricity count services	(284 837)	(131 731)
Impairment losses on property, plant and equipment (Note 12)	(17 523)	(5 596 990)
Provision for inventory obsolescence	(6 785)	13 803
Other expenses	(3 611 252)	(3 891 584)
	(111 486 082)	**(119 827 084)**

8 Personnel costs

	2015 '000 RUB	2014 '000 RUB
Salaries and wages, including social tax	(14 074 857)	(12 887 079)
Contributions to State pension fund	(2 783 974)	(2 457 711)
Financial aid to employees and pensioners	(769 825)	(1 032 364)
Expenses in respect of post employmenent benefits - defined contribution plan	(161 503)	(221 766)
(Expenses)/benefits in respect of post employment benefits – defined benefit plan	(88 575)	238 039
Net (expenses)/benefit in respect of other long-term post employment benefits	(9 508)	(1 074)
	(17 888 242)	**(16 361 955)**

Average number of employees during the year was 15 797 (2014: 15 933). The amounts related to the key management remuneration are disclosed in Note 30.

9 Other operating income

	2015 '000 RUB	2014 '000 RUB
Income from assets acquired free of charge	1 732 874	2 891 883
Income under non-contracted energy consumption	336 398	2 421 795
Other income	959 375	894 435
	3 028 647	**6 208 113**

10 Finance income and costs

	2015 '000 RUB	2014 '000 RUB
Finance income		
Interest income	960 442	554 490
Interest on assets related to employee benefits obligations	14 064	12 038
	974 506	**566 528**
Finance costs		
Interest expense in respect of loans and borrowings	(4 797 635)	(3 238 791)
Interest on employee benefits obligation	(353 955)	(256 565)
Unwinding of discount on financial liabilities at amortized costs	(65 462)	(56 368)
Interest on finance lease	(15 233)	(8 447)
	(5 232 285)	**(3 560 171)**

11 Income tax expense

	2015 '000 RUB	2014 '000 RUB
Current income tax charge		
Current tax accrued	(3 600 788)	(4 688 853)
Overprovided in prior periods	2 483 386	1 273 245
	(1 117 402)	**(3 415 608)**
Deferred income tax charge		
Origination and reversal of temporary differences	(3 233 525)	1 361 575
Change in tax base of property, plant and equipment	(2 658 723)	(1 273 245)
	(5 892 248)	**88 330**
Income tax expense	**(7 009 650)**	**(3 327 278)**

In 2015 and 2014 the Group recalculated income tax for prior periods related to the deductibility for tax purposes of certain amounts which were previously capitalized in the tax value of property, plant and equipment and accelerated depreciation of property, plant and equipment operated in an aggressive environment.

As a result, adjusted tax declarations were submitted to the tax authorities, and adjustments which decreased the income tax were recognized in respect of income tax for the prior periods.

The applicable tax rate in the Russian Federation is the income tax rate of 20%.

Reconciliation of effective tax rate:

	2015 '000 RUB	%	2014 '000 RUB	%
Profit before income tax	19 640 443	100	11 405 635	100
Income tax at applicable tax rate	(3 928 088)	(20)	(2 281 127)	(20)
Overprovided in prior periods	2 483 386	13	1 273 245	11
Change in tax base of PPE	(2 658 723)	(14)	(1 273 245)	(11)
Write-off of deferred tax asset	(2 282 515)	(12)	-	-
Non-deductible expenses	(623 710)	(3)	(1 046 151)	(9)
	(7 009 650)	**(36)**	**(3 327 278)**	**(29)**

12 Property, plant and equipment

'000 RUB Cost or deemed historical cost	Land and buildings	Trans-mission networks	Transfor-mers and transformer substations	Other	Construction in progress	Total
At 1 January 2014	34 315 946	154 265 196	56 401 031	68 974 491	35 134 014	349 090 678
Additions	147 252	2 553 017	218 957	30 694	44 915 349	47 865 269
Disposals	(50 463)	(636 468)	(191 557)	(644 719)	(1 031 033)	(2 554 240)
Transfers	1 681 415	23 491 091	12 082 007	8 627 526	(45 882 039)	-
At 31 December 2014	**36 094 150**	**179 672 836**	**68 510 438**	**76 987 992**	**33 136 291**	**394 401 707**
Depreciation and impairment losses						
At 1 January 2014	(6 522 874)	(38 395 910)	(15 418 383)	(34 598 455)	(920 969)	(95 856 591)
Depreciation charge	(876 126)	(8 451 031)	(5 724 815)	(5 438 687)	-	(20 490 659)
Impairment losses	(700 493)	(3 555 809)	(977 414)	-	(363 274)	(5 596 990)
Disposals	26 030	285 098	85 312	319 160	495 000	1 210 600
At 31 December 2014	**(8 073 463)**	**(50 117 652)**	**(22 035 300)**	**(39 717 982)**	**(789 243)**	**(120 733 640)**
Net book value						
At 1 January 2014	27 793 072	115 869 286	40 982 648	34 376 036	34 213 045	253 234 087
At 31 December 2014	**28 020 687**	**129 555 184**	**46 475 138**	**37 270 010**	**32 347 048**	**273 668 067**
Cost						
At 1 January 2015	36 094 150	179 672 836	68 510 438	76 987 992	33 136 291	394 401 707
Additions	227 732	2 072 282	518 134	1 984 674	32 327 142	37 129 964
Disposals	(36 054)	(344 264)	(31 201)	(205 357)	(9 113)	(625 989)
Transfers	2 660 031	17 707 879	8 353 660	2 810 894	(31 532 464)	-
At 31 December 2015	**38 945 859**	**199 108 733**	**77 351 031**	**81 578 203**	**33 921 856**	**430 905 682**
Depreciation and impairment losses						
At 1 January 2015	(8 073 463)	(50 117 652)	(22 035 300)	(39 717 982)	(789 243)	(120 733 640)
Depreciation charge	(1 109 710)	(8 270 335)	(4 939 909)	(6 288 070)	-	(20 608 024)
Impairment losses	-	-	-	-	(17 523)	(17 523)
Disposals	4 187	152 924	21 235	186 823	10	365 179
Transfers	(18 490)	(83 505)	(29 995)	(25 262)	157 252	-
At 31 December 2015	**(9 197 476)**	**(58 318 568)**	**(26 983 969)**	**(45 844 491)**	**(649 504)**	**(140 994 008)**
Net book value						
At 1 January 2015	28 020 687	129 555 184	46 475 138	37 270 010	32 347 048	273 668 067
At 31 December 2015	**29 748 383**	**140 790 165**	**50 367 062**	**35 733 712**	**33 272 352**	**289 911 674**

(a) Impairment of property, plant and equipment

The Group identified impairment indicators of certain cash generating units and performed impairment testing in respect of property, plant and equipment as at 31 December 2015. For this purpose, cash flows were analyzed and the calculated amount was compared to the book value of non-current assets.

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market. The market for similar property, plant and equipment is not active and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value.

Therefore the value in use for property, plant and equipment as at 31 December 2015 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

The Group determines cash generating units based on geographical position of affiliates and subsidiaries. Cash generating units are the smallest identifiable groups of assets that generate cash flow independently of other assets of the Group.

The following main assumptions were used in assessing the recoverable amount of generating units:

- Cash flows were forecasted based on provisions of the Methodological guidelines on impairment testing of electric grid assets (approved by the Order of PJSC Rosseti No. 583p from 15.12.2015) and forecasts for the period till 2020;
- Forecasted cash flows were assessed for the period of 2016-2022 based on the Group management best estimate of the volume of electricity transferred, the operational and capitalized expenses, and the tariffs approved by the regulation authorities for 2016. Term forecast – with the test date on the end of the 5-year period following the last year of the current approved period of tariff regulation;
- For purposes of forecasting the tariffs for electricity transportation for the forecasted period a business plan, adjusted and agreed upon with PJSC Rosseti, which is based on tariff models taking into account average annual growth of tariffs for electricity transportation (in accordance with the Forecast of social economic development of the Russian Federation for 2016 and planning period of 2017-2018, was used;
- Forecasted volume of electricity transportation was determined based on the Company's business plan for 2016-2020;
- Forecasted cash flows were discounted to their present value with nominal weighted average cost of capital equal to 11.31%;
- Growth rates of net cash flows in the period following the forecasted equal 2.4% for all cash generating units;

As a result of the test performed impairment loss on property, plant and equipment was not recognized as of 31 December 2015.

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2015 the net book value of leased plant and machinery was RUB 138 031 thousand (31 December 2014: RUB 150 063 thousand). The leased equipment secures lease obligations.

(c) Capitalised interest

Borrowing costs totalling RUB 2 388 176 thousand for 2015 with a capitalisation rate of 10.56% (2014: RUB 2 078 087 thousand with a capitalisation rate of 8.69%) were included in the cost of property, plant and equipment and represent interest on loans.

(d) Advance payments for property, plant and equipment

As at 31 December 2015 construction in progress includes advance payments for property, plant and equipment of RUB 335 695 thousand (31 December 2014: RUB 324 601 thousand).

(e) Property received free of charge

During 2015, there were fixed assets received free of cash under the agreement on compensation of losses in the amount of RUB 4 006 467 thousand (2014: RUB 5 054 148 thousand).

13 Intangible assets

'000 RUB	Software	Certificates and licences	Other	Total
Historical cost				
At 1 January 2014	551 989	63 610	107 173	722 772
Additions	199 708	60 656	603 657	864 021
Disposals	(160 640)	(36 994)	(202)	(197 836)
At 31 December 2014	**591 057**	**87 272**	**710 628**	**1 388 957**
Amortisation				
At 1 January 2014	(148 541)	(27 854)	(5 670)	(182 065)
Amortisation	(80 864)	(21 547)	(11 245)	(113 656)
Disposals	159 789	36 994	202	196 985
At 31 December 2014	**(69 616)**	**(12 407)**	**(16 713)**	**(98 736)**
Net book value				
At 1 January 2014	403 448	35 756	101 503	540 707
At 31 December 2014	**521 441**	**74 865**	**693 915**	**1 290 221**
At 1 January 2015	591 057	87 272	710 628	1 388 957
Additions	664 602	-	264 802	929 404
Transfers	381 837	-	(381 837)	-
At 31 December 2015	**1 637 496**	**87 272**	**593 593**	**2 318 361**
Amortisation				
At 1 January 2015	(69 616)	(12 407)	(16 713)	(98 736)
Amortisation	(104 481)	(44 337)	(13 126)	(161 944)
At 31 December 2015	**(174 097)**	**(56 744)**	**(29 839)**	**(260 680)**
Net book value				
At 1 January 2015	521 441	74 865	693 915	1 290 221
At 31 December 2015	**1 463 399**	**30 528**	**563 754**	**2 057 681**

14 Current investments

	31 December 2015 '000 RUB	31 December 2014 '000 RUB
Loan issued	-	550 000
	-	**550 000**

As at 31 December 2014, the short-term investments are represented by the loan issued at 14% interest rate with maturity term in February 2015.

15 Other non-current assets

	31 December 2015 '000 RUB	31 December 2014 '000 RUB
Long-term advances for connection services	7 662 445	14 453 696
VAT on advances from customers	1 380 205	1 333 368
Assets related to the pension plan liabilities (Note 23)	295 020	272 052
Allowance for impairment	(4 838 073)	(10 991 870)
	4 499 597	**5 067 246**

Assets related to the pension plan liabilities represent the Group's contributions accumulated on solidary and employees' individual pension accounts in the Non-State Pension Fund of Electric Power Industry. Subject to certain restrictions, the accumulated contributions can be withdrawn at the discretion of the Group.

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities at 31 December are attributable to the following:

'000 RUB	Assets		Liabilities		Net	
	2015	2014	2015	2014	2015	2014
Property, plant and equipment	23 692	91 807	(18 622 481)	(15 604 779)	(18 598 789)	(15 512 972)
Intangible assets	-	1	(97 265)	(40 288)	(97 265)	(40 287)
Inventories	473 792	517 309	-	(253)	473 792	517 056
Trade and other receivables	1 771 991	3 981 339	-	-	1 771 991	3 981 339
Finance lease liability	22 922	358 493	-	-	22 922	358 493
Loans and borrowings	-	-	(266 558)	(281 253)	(266 558)	(281 253)
Employee benefits	744 586	677 795	-	(104)	744 586	677 691
Trade and other payables	387 346	400 276	(30 280)	(251)	357 066	400 025
Provisions	32 786	111 109	-	-	32 786	111 109
Other	27 390	86 888	-	-	27 390	86 888
Tax assets/ (liabilities)	**3 484 505**	**6 225 017**	**(19 016 584)**	**(15 926 928)**	**(15 532 079)**	**(9 701 911)**

(b) Movement in temporary differences during the year

'000 RUB	1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2015
Property, plant and equipment	(15 512 972)	(3 085 817)	-	(18 598 789)
Intangible assets	(40 287)	(56 978)	-	(97 265)
Inventories	517 056	(43 264)	-	473 792
Trade and other receivables	3 981 339	(2 209 348)	-	1 771 991
Finance lease liability	358 493	(335 571)	-	22 922
Loans and borrowings	(281 253)	14 695	-	(266 558)
Employee benefits	677 691	4 815	62 080	744 586
Trade and other payables	400 025	(42 959)	-	357 066
Provisions	111 109	(78 323)	-	32 786
Other	86 888	(59 498)	-	27 390
	(9 701 911)	**(5 892 248)**	**62 080**	**(15 532 079)**

'000 RUB	1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2014
Property, plant and equipment	(15 352 783)	(160 189)	-	(15 512 972)
Intangible assets	(1 400)	(38 887)	-	(40 287)
Inventories	602 498	(85 442)	-	517 056
Trade and other receivables	3 695 629	285 710	-	3 981 339
Finance lease liability	390 966	(32 473)	-	358 493
Loans and borrowings	(291 624)	10 371	-	(281 253)
Employee benefits	782 665	(34 999)	(69 975)	677 691
Trade and other payables	372 489	27 536	-	400 025
Provisions	89 443	21 666	-	111 109
Other	(8 149)	95 037	-	86 888
	(9 720 266)	**88 330**	**(69 975)**	**(9 701 911)**

17 Inventories

	31 December 2015 '000 RUB	31 December 2014 '000 RUB
Raw materials and consumables	2 315 227	2 311 585
Other	733 288	374 369
Allowance for impairment of inventories	(398 332)	(391 380)
	2 650 183	**2 294 574**

18 Trade and other receivables

	31 December 2015 '000 RUB	31 December 2014 '000 RUB
Trade receivables	16 093 176	13 114 538
VAT on advances from customers	4 590 803	4 851 396
Other receivables	4 224 320	5 085 855
Advances given	2 004 416	1 922 517
VAT recoverable	258 911	451 437
VAT receivable	65	26 178
Allowance for impairment of accounts receivable	(1 274 755)	(2 043 931)
	25 896 936	**23 407 990**

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

19 Cash and cash equivalents

	31 December 2015 '000 RUB	31 December 2014 '000 RUB
Current accounts	400 558	4 302 523
Petty cash	87	2 766
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	**400 645**	**4 305 289**

The Group's exposure to interest rate risk, credit risk exposure and a sensitivity analysis for financial assets and liabilities are disclosed in Note 27.

20 Equity

(a) Share capital

Share capital	Ordinary shares 31 December 2015	Ordinary shares 31 December 2014
Number of ordinary shares of 0.50 RUB each	48 707 091 574	48 707 091 574

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 meetings of the shareholders.

(b) Treasury shares

The Group did not hold any own shares as at 31 December 2015 and 31 December 2014.

(c) 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.

In 2015 the Company declared and paid dividends in amount of RUB 2 055 439 thousand (RUB 0.0422 per share) (2014: in amount of RUB 2 910 249 thousand (RUB 0.060 per share)).

(d) Acquisition of non-controlling interests

On 08 December 2015, the Group acquired an additional 10 001 shares of subsidiary of the Group OJSC Energocentr for a cash consideration of RUB 120 000 thousand, increasing its ownership interest in OJSC Energocentr from 75% minus one share to 100%. The carrying amount of OJSC Energocentr's net assets in the Group's financial statements on the date of the acquisition was RUB 2 176 668 thousand. As a result of this transaction the Group recognised a decrease in non-controlling interests of RUB 540 895 thousand, and an increase in retained earnings of RUB 420 895 thousand.

The following table summarises the effect of changes in the Company's ownership interest in OJSC Energocentr.

'000 RUB	2015
Company's ownership interest at 1 January	1 309 048
Effect of increase in Company's ownership interest	540 895
Share of comprehensive income	326 725
Company's ownership interest at 31 December	**2 176 668**

21 Earnings per share

The calculation of earnings per share is based upon the profit for the year attributable to the shareholders and the average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

	31 December 2015	31 December 2014
Number of outstanding shares	48 707 091 574	48 707 091 574
Profit for the year attributable to the shareholders of PJSC "MOESK" ('000 RUB)	12 521 883	8 014 771
Earnings per share (RUB)	0.2571	0.1646

22 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see Note 27.

	31 December 2015 '000 RUB	31 December 2014 '000 RUB
Non-current		
Unsecured bank facility	53 367 880	42 121 317
Unsecured bond issues	12 404 381	10 468 870
Finance lease liabilities	101 362	139 537
	65 873 623	**52 729 724**
Current		
Current portion of unsecured bond issues	5 544 245	10 769 081
Current portion of unsecured bank facility	2 590 016	7 774 313
Current portion of finance lease liabilities	13 249	10 617
Unsecured bank facility	-	3 000 000
	8 147 510	**21 554 011**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 RUB	Currency	31 December 2015 Nominal interest rate	31 December 2014 Nominal interest rate	Year of maturity	31 December 2014 Face value	31 December 2014 Carrying amount	31 December 2014 Face value	31 December 2014 Carrying amount
Unsecured bonds	RUB	-	-	2024	737 377	512 063	1 082 360	740 017
Unsecured bank facility *	RUB	8.00%	8.00%	2018	10 013 151	10 013 151	10 013 151	10 013 151
Unsecured bank facility *	RUB	8.00%	8.00%	2018	8 532 523	8 532 523	8 532 523	8 532 523
Unsecured bank facility *	RUB	-	8.00%	2015	-	-	1 001 404	1 001 404
Unsecured bank facility *	RUB	-	8.00%	2015	-	-	1 001 404	1 001 404
Unsecured bank facility *	RUB	-	8.00%	2015	-	-	1 001 404	1 001 404
Unsecured bank facility *	RUB	9.16%	9.16%	2017	4 106 174	4 106 174	4 106 174	4 106 174
Unsecured bank facility *	RUB	-	7.72%	2015	-	-	3 002 539	3 002 539
Unsecured bank facility *	RUB	-	7.72%	2015	-	-	3 202 708	3 202 708
Unsecured bank facility *	RUB	-	7.72%	2015	-	-	1 501 269	1 501 269
Unsecured bank facility *	RUB	7.46%	7.46%	2016	2 502 867	2 502 867	2 502 044	2 502 044
Unsecured bank facility *	RUB	12.00%	-	2017	4 275 027	4 275 027	-	-
Unsecured bank facility *	RUB	11.95%	-	2017	2 534 930	2 534 930	-	-
Unsecured bank facility *	RUB	11.50%	11.50%	2019	2 002 655	2 002 655	2 002 655	2 002 655
Unsecured bank facility *	RUB	11.50%	11.50%	2017	8 015 123	8 015 123	8 015 123	8 015 123
Unsecured bank facility *	RUB	11.50%	-	2018	6 962 214	6 962 214	-	-
Unsecured bank facility	RUB	11.50%	11.50%	2017	5 009 452	5 009 452	5 009 452	5 009 452
Unsecured bank facility	RUB	11.50%	11.50%	2017	2 003 780	2 003 780	2 003 780	2 003 780
Unsecured bonds	RUB	-	8.80%	2015	-	-	5 124 166	5 121 407
Unsecured bonds	RUB	-	8.80%	2015	-	-	5 078 357	5 075 157
Unsecured bonds	RUB	8.50%	8.50%	2016	5 164 164	5 163 891	5 163 000	5 160 389
Unsecured bonds	RUB	11.50%	11.50%	2024	5 147 673	5 144 386	5 146 166	5 140 981
Unsecured bonds	RUB	13.20%	-	2018	7 144 298	7 128 286	-	-
Finance lease liabilities	RUB	11%	-	2038	-	114 611	-	150 154
					74 151 408	**74 021 133**	**74 489 679**	**74 283 735**

*Loans from state controlled entities

Finance lease liabilities are payable as follows:

	31 December 2015			31 December 2014		
'000 RUB	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	25 373	(12 124)	13 249	30 168	(19 551)	10 617
Between one and five years	100 455	(31 629)	68 826	122 752	(46 613)	76 139
More than five years	38 299	(5 763)	32 536	70 211	(6 813)	63 398
	164 127	**(49 516)**	**114 611**	**223 131**	**(72 977)**	**150 154**

All bank loans are unsecured. The finance lease liabilities are secured by the leased assets (see Note 12).

23 Employee benefits

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan and defined benefit pension plan (Non-State Pension Fund of the Electric Power and Non-State Pension Fund "Gazfond"); and
- other long-term defined benefit plans regulated by Collective Bargaining Agreements that include lump sum benefit for pensioners upon retirement, benefits paid in connection with the jubilee dates of pensioners and employees, financial support for pensioners and one-time benefits paid in case of the death of pensioners.

The table below summarises the amounts of defined benefit obligations recognised in the financial statements.

Amounts recognised in the consolidated statement of financial position:

	31 December 2015	31 December 2014
	'000 RUB	'000 RUB
Present value of post-employment benefits obligation	3 632 174	3 307 249
Present value of other long-term employee benefit obligation	90 756	82 247
Total present value of benefit obligation	**3 722 930**	**3 389 496**

Amounts recognised in profit or loss are as follows:

	Year ended 31 December 2015 '000 RUB	Year ended 31 December 2014 '000 RUB
Interest expenses, net (Note 10)	353 955	256 565
Service cost	95 516	(232 233)
Remeasurement of other long-term employee benefit obligation	2 567	(4 732)
Total loss recognised in profit and loss	**452 038**	**19 600**

Amounts recognised in other comprehensive income are as follows:

	Year ended 31 December 2015 '000 RUB	Year ended 31 December 2014 '000 RUB
Actuarial loss/(gain) arising from financial assumptions	310 685	(436 363)
Actuarial gain arising from demographic assumptions	(3 900)	(90 566)
Actuarial loss arising from experience adjustment	3 613	177 055
Total actuarial loss/(gain) recognised in other comprehensive income	**310 398**	**(349 874)**

Movements in defined benefit liability are as follows:

	Present value of post-employment benefits obligation		Present value of other long-term employee benefit obligation		Present value of defined benefit liability	
'000 RUB	**Year ended 31 December 2015**	**Year ended 31 December 2014**	**Year ended 31 December 2015**	**Year ended 31 December 2014**	**Year ended 31 December 2015**	**Year ended 31 December 2014**
Benefit obligations at 1 January	3 307 249	4 173 254	82 247	84 022	3 389 496	4 257 276
Current service cost	149 911	190 038	5 507	5 806	155 418	195 844
Past service cost	(61 336)	(428 077)	1 434	-	(59 902)	(428 077)
Interest cost	345 387	250 552	8 568	6 013	353 955	256 565
Remeasurement loss (gain) of the defined benefit liability arising from:						
Actuarial loss (gain) arising from demographic assumptions	(3 900)	(90 566)	(44)	(577)	(3 944)	(91 143)
Actuarial (gain) loss arising from financial assumptions	310 685	(436 363)	8 986	(11 893)	319 671	(448 256)
Actuarial loss (gain) arising from experience adjustment	3 613	177 055	(6 375)	7 738	(2 762)	184 790
Benefits paid	(419 435)	(528 644)	(9 567)	(8 862)	(429 002)	(537 503)
Benefit obligations at 31 December	**3 632 174**	**3 307 249**	**90 756**	**82 247**	**3 722 930**	**3 389 496**

Movements in the fair value of assets related to pension plan liabilities during 2015 and 2014 were as follows:

	2015 '000 RUB	2014 '000 RUB
Fair value of assets at 1 January	272 052	343 950
Return on plan assets	14 064	12 038
Contribution by employer	312 976	324 475
Other movements	12 776	10 047
Benefits paid	(316 848)	(418 458)
Fair value of assets at 31 December	**295 020**	**272 052**

	31 December 2015 '000 RUB	31 December 2014 '000 RUB
Employees benefit liabilities	(3 722 930)	(3 389 496)
Fair value of assets	295 020	272 052
Net liabilities at 31 December	**(3 427 910)**	**(3 117 444)**

Assets related to defined benefit plans are managed by the non-state pension fund OAO NPF Elektroenergetiki. These assets are not assets of the fund as according to the agreements with the fund the Group may use earlier payments for reduction of future payments, or for refund through financing other plans or through transfer to another fund at its own discretion.

Movements in amount of restatement of employee benefit obligation that were fully recognised in OCI during the year are as follows:

	Year ended 31 December 2015 '000 RUB	Year ended 31 December 2014 '000 RUB
1 January	1 897 126	2 247 000
Movement in amount of restatement	310 398	(349 874)
31 December	**2 207 524**	**1 897 126**

The significant actuarial assumptions are as follows:

	2015	2014
Financial actuarial assumptions		
Discount rate, annual (nominal)	9.50%	12.00%
Future inflation rate	6.00%	7.00%
Future Salary increase (nominal)	6.00%	7.00%

Demographic actuarial assumptions	2015	2014
The expected age of retirement:		
Men	60	60
Women	55	55
The average level of staff movement	6.00%	6.00%

The sensitivity of employee benefits obligation to changes in fundamental actuarial assumptions are as follows:

	Change in the assumption	Impact on obligation	Sensitivity
Discount rate	Increase/decrease by 0.5%	Decrease/increase by	3.25%
Future salary growth	Increase/decrease by 0.5%	Increase/decrease by	0.78%
Future growth of benefits (inflation)	Increase/decrease by 0.5%	Increase/decrease by	2.58%
Average level of staff movement	Increase/decrease by 10%	Decrease/increase by	1.08%
Mortality	Increase/decrease by 10%	Decrease/increase by	0.94%

The weighted average duration of the defined benefit plan obligation and the other long-term benefits as at 31 December 2015 is 11.8 years and 13.5 years, respectively. The expected contributions by the Group to the defined benefit plans and the other long-term benefits in 2016 are RUB 498 759 thousand and RUB 13 551 thousand, respectively.

24 Provisions

'000 RUB	Legal claims
Balance at 1 January 2014	**447 214**
Provisions accrued during the year	305 834
Provisions reversed during the year	(103 536)
Provisions used during the year	(93 967)
Balance at 31 December 2014	**555 545**
Provisions accrued during the year	327 248
Provisions reversed during the year	(14 498)
Provisions used during the year	(572 028)
Balance at 31 December 2015	**296 267**

Provision for legal claims relates to the claims where the Group acts as a defendant within the ordinary course of business. The balance of the provision at 31 December 2015 is expected to be utilised in 2016. Management believes, after taking appropriate legal advice, that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

25 Trade and other payables

	31 December 2015 '000 RUB	31 December 2014 '000 RUB
Non-current		
Advances received	9 283 941	8 226 560
Other payables	180 424	1 116 969
	9 464 365	**9 343 529**
Current		
Advances received	28 036 047	32 602 707
Accounts payable – trade	19 693 278	18 141 365
Other payables and accrued provisions	3 916 530	2 055 978
	51 645 855	**52 800 050**

As at 31 December 2015 overdue advances received for connection services were RUB 9 297 807 thousand (31 December 2014: RUB 5 940 388 thousand). The Group's approach to managing liquidity risks is entering into additional agreements with revised terms of execution.

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

26 Other taxes payable

	31 December 2015 '000 RUB	31 December 2014 '000 RUB
Value added tax	1 008 934	61 404
Property tax	449 063	360 110
Employee taxes	222 474	164 311
Other taxes	14 544	13 782
	1 695 015	**599 607**

27 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

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

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

The Group's 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. 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.

(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, and arises principally from the Group's receivables from customers, investment securities and bank deposits.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Approximately 94% (2014: 78%) of the Group's revenue is attributable to sales transactions with a single customer transacting with the Group for over ten years, and, historically, losses have incurred infrequently. For the purpose of monitoring customer credit risk, the remaining customers are grouped according to their credit characteristics, including aging profile, maturity and existence of previous financial difficulties. The Group's management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Based on the analysis performed, individual risk limits are set for each group of customers and these limits are reviewed on a regular basis.

The Group does not require collateral in respect of trade and other receivables.

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

Exposure to credit risk

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

	Carrying amount	
'000 RUB	**31 December 2015**	**31 December 2014**
Trade and other receivables	19 085 236	16 186 192
Cash and cash equivalents	400 645	4 305 289
Current investments	-	550 000
	19 485 881	**21 041 481**

The Group's most significant customer is controlled by the Government of Russian Federation and accounts for RUB 10 824 798 thousand of the trade receivables carrying amount at 31 December 2015 (2014: RUB 9 081 814 thousand).

Impairment losses

The aging of trade and other receivables as at 31 December was:

	Gross	Impairment	Gross	Impairment
'000 RUB	**2015**	**2015**	**2014**	**2014**
Not past due	13 580 441	-	10 622 313	(751)
Past due less than 3 months	1 198 610	-	2 760 712	(1 169)
Past due from 3 to 6 months	331 644	-	765 711	(7 344)
Past due from 6 months to one year	2 425 518	-	965 844	(270 902)
More than one year	2 736 598	(1 187 575)	3 030 306	(1 678 528)
	20 272 811	**(1 187 575)**	**18 144 886**	**(1 958 694)**

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

	2015 '000 RUB	2014 '000 RUB
Balance at 1 January	(1 958 694)	(732 925)
Increase during the period	(411 019)	(1 437 473)
Decrease due to write-off	248 217	225 731
Decrease due to reversal	933 921	(14 027)
Balance at 31 December	**(1 187 575)**	**(1 958 694)**

The impairment provision at 31 December 2015 of RUB 1 187 575 thousand (2014: RUB 1 958 694 thousand) relates to disputable accounts receivable with no payment.

Based on past experience and analysis performed by the credit department, Group management believes that no impairment allowance is necessary in respect of accounts receivable not past due because the customers to which these balances relate have a good credit history.

(ii) Bank deposits, cash and cash equivalents

Bank deposits, cash and cash equivalents are deposited only with financial institutions that at the time of deposit the management considers to have minimal risk of default. Bank deposits, cash and cash equivalents are mainly held at PJSC Sberbank, PJSC Bank VTB, JSC "Gazprombank", state-owned banks.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's objective of liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Group monitors and manages liquidity risk by maintaining bank credit lines, obtaining loans (Note 22) and sufficient cash balances on its settlement accounts (see Note 19).

At 31 December 2015, the Group had available RUB 30 632 120 thousand (2014: 29 878 683 RUB thousand) of undrawn borrowing facilities.

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

2015 **'000 RUB**	**Carrying amount**	**Contractual cash flows**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans	55 957 896	65 954 004	6 254 123	29 343 302	29 381 750	959 796	15 033	-
Bonds issued	17 948 626	21 714 244	7 077 994	6 000 547	1 146 702	82 917	84 713	7 321 371
Finance lease liabilities	114 611	164 126	25 373	25 425	25 336	25 106	24 588	38 298
Trade payables	23 580 309	23 580 309	23 580 309	-	-	-	-	-
	97 601 442	**111 412 683**	**36 937 799**	**35 369 274**	**30 553 788**	**1 067 819**	**124 334**	**7 359 669**

2014 **'000 RUB**	**Carrying amount**	**Contractual cash flows**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans	52 895 631	65 409 820	15 122 698	6 374 214	21 584 756	21 996 011	332 141	-
Bonds issued	21 237 951	28 080 691	12 179 715	5 863 984	627 567	629 424	631 417	8 148 584
Finance lease liabilities	150 154	223 131	30 168	30 774	31 123	30 908	30 128	70 030
Trade payables	18 148 270	18 148 270	18 148 270	-	-	-	-	-
	92 432 006	**111 861 912**	**45 480 851**	**12 268 972**	**22 243 446**	**22 656 343**	**993 686**	**8 218 614**

(d) Market risk

Market risk is the risk that changes in market prices, such as 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.

(i) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
'000 RUB	**31 December 2015**	**31 December 2014**
Financial assets	400 645	4 889 427
Financial liabilities	(73 906 522)	(74 133 582)
	(73 505 877)	**(69 244 155)**

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, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

In 2015 the Group did not have financial instruments with the floating interest rate, therefore there was no effect for equity and profit or loss.

(ii) Foreign currency risks

The Group is not exposed to foreign currency risks.

(e) Fair values

The basis for determining fair values is disclosed in Note 4. Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying amount		Fair value	
'000 RUR	**2015**	**2014**	**2015**	**2014**
Financial assets				
Short term loans issued	-	550 000	-	550 000
Total	**-**	**550 000**	**-**	**550 000**
Financial liabilities				
Finance lease liabilities	114 611	150 154	86 933	137 367
Loans and borrowings	55 957 896	52 895 630	47 969 896	47 731 768
Unsecured bonds	17 948 626	21 237 951	13 732 958	19 815 260
Total	**74 021 133**	**74 283 735**	**61 789 787**	**67 684 395**

Fair value of short term financial assets is near their carrying amount primarily due to short maturity term.

Fair value of financial liabilities in respect of loans and finance lease was determined on the basis from 13.16% to 14.58% market interest rate (31 December 2014: 11.94%).

(f) Fair value hierarchy

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within 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)

'000 RUB	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2015				
Finance lease	-	-	86 933	86 933
Unsecured bank facility	-	47 969 896	-	47 969 896
Unsecured bonds	-	13 732 958	-	13 732 958
Total liabilities	**-**	**61 702 854**	**86 933**	**61 789 787**

'000 RUB	Level 1	Level 2	Level 3	Total
31 December 2014				
Current loans granted	-	550 00	-	550 000
Total assets	**-**	**550 000**	**-**	**550 000**
31 December 2014				
Finance lease	-	-	137 367	137 367
Unsecured bank facility	-	47 731 768	-	47 731 768
Unsecured bonds	-	19 815 260	-	19 815 260
Total liabilities	**-**	**67 547 028**	**137 367**	**67 684 395**

Fair value of loans and borrowings as of 31 December 2015 presented in the table above is determined by discounting of future cash flows by long-term and short-term loans using weighted average interest rate for Ruble denominated instruments from 13.16% to 14.58 (assumptions of Level 2 in the fair value hierarchy).

(g) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less cash. Total capital is calculated as equity, as shown in the consolidated statement of financial position.

	Carrying amount	
'000 RUB	**31 December 2015**	**31 December 2014**
Total borrowings (Note 22)	74 021 133	74 283 735
Less: Cash and cash equivalents (Note 19)	(400 645)	(4 305 289)
Net debt	73 620 488	69 978 446
Equity	169 232 705	159 025 669
Debt to equity ratio	**44.00%**	**44.00%**

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

The Group is subject to external capital requirements that require that its net assets as determined in accordance with Russian Accounting Principles must exceed its charter capital at all times.

28 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2015 '000 RUB	31 December 2014 '000 RUB
Less than one year	1 335 352	1 439 910
Between one and five years	1 546 586	1 703 410
More than five years	9 780 285	8 638 260
	12 662 223	**11 781 580**

The Group leases a number of plots of land owned by local governments under operating lease. Land lease payments are determined by lease agreements.

The plots of land leased by the Group are the areas where the Group's electricity network, transformer substations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

29 Commitments

Future capital expenditures for which contracts relates to capital construction of power grid facilities have been signed as at 31 December 2015 amount to RUB 19 496 369 thousand (31 December 2014: RUB 30 700 909 thousand).

(a) Political environment

The operations and earnings of Group entities continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia.

In 2014, the United States, European Union and other countries have introduced a series of unilateral restrictive political and economic actions against the Russian Federation and a number of Russian and Ukrainian individuals and organizations. These official actions, particularly in the case of a further escalation, may result in reduction of economic cooperation between business of before mentioned countries and Russian companies on the international capital markets, as well as other economic consequences. The impact of these events on the future results of operations and financial position of the Company at this time is difficult to determine.

(b) 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 has full coverage for its plant facilities and equipment. The Group does not have full coverage for business interruption and 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.

(c) Litigation

The Group is party to certain legal proceedings arising in the ordinary course of business. The management does not believe that these matters will have a material adverse effect on the Group's operating results.

(d) Taxation contingencies in the Russian Federation

The taxation systems in the Russian Federation and in other countries in which the Group operates are relatively new and characterised by frequent changes in legislation, official pronouncements and court decisions which are often unclear, 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 during three to five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

In addition, tax and other legislation do not address specifically all the aspects of the Group's reorganisation related to reforming of the electric utilities industry in the Russian Federation. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganisation and reform process.

These circumstances may create tax risks in the Russian Federation and in the other countries in which the Group operates. Management believes that it has adequately provided for tax liabilities based on its interpretations of applicable relevant 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.

The Parent company and subsidiaries in Russian Federation where they operate have various transactions with related parties. The pricing policy could give rise to transfer pricing risks. In management's opinion, the Group is in substantial compliance with the tax laws of the countries where Group entities operate. However, relevant authorities could take different positions with regard to interpretive issues or court practice could develop adversely with respect to the positions taken by the Group and the effect could be significant.

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds RUR 1 billion in 2015 and 2014 years. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognized in 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2015 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices or making appropriate transfer pricing adjustments (where applicable).

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Company under the "controlled" transactions and assess additional tax liabilities unless the Company is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

(e) Environmental matters

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

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

30 Related party transactions

(a) Control relationships

As at 31 December 2015 the Parent of the Group was PJSC "Rosseti", a state controlled entity. The party with ultimate control over the Group is the Government of the Russian Federation, which held the majority of the voting rights of PJSC "Rosseti", the parent company.

(b) Transactions with parent company and other related parties relationships

'000 RUB	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2015	2014	2015	2014
Sale of goods and services:	**49 045**	**146 220**	**242 979**	**379 128**
Parent company	6 738	1 527	-	29 882

'000 RUB	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2015	**2014**	**2015**	**2014**
Fellow subsidiaries	42 307	144 693	242 979	349 246
Purchase of goods and services:	**15 499 774**	**15 092 508**	**1 240 984**	**1 573 865**
Parent company	400 866	388 321	23 501	22 562
Fellow subsidiaries	15 098 908	14 704 187	1 217 483	1 551 303
Advances given:	-	-	**47 829**	**42 516**
Fellow subsidiaries	-	-	47 829	42 516
Advances received:	-	-	**197**	**96 582**
Fellow subsidiaries	-	-	197	96 582

(c) Transactions with management and close family members

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

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 8):

'000 RUB	2015	2014
Short-term employee benefits, including social taxes	616 925	704 152
Termination benefits	15 354	30 174
Current service cost related to employee benefits obligation	20 342	25 592
Financial cost related to employee benefits obligation	16 998	9 393
Remeasurement of employee benefits obligation (OCI)	(20 539)	(10 742)
	649 080	**758 569**

The carrying value of defined benefit plan and other post-employment benefits reported in the consolidated statement of financial position of the Group includes RUB 158 456 thousand liabilities related to key management (2014: RUB 141 654 thousand).

(d) Transactions with state-controlled entities

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

Revenues from state-controlled entities for the year ended 31 December 2015 constitute 83% (2014: 81%) of total Group revenues, including 91% (2014: 91%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the year ended 31 December 2015 constitute 83% (2014: 80%) of total transmission costs.

Significant loans from state-controlled entities are disclosed in Note 22.

(e) Pricing policies

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

In accordance with the Company Charter documents, the following transactions are subject to the approval of the Board of Directors, if the amount of the transaction is below 2% of total assets of the Company as determined in accordance with RAS (Russian accounting standards), and are subject to approval at the Shareholders` meeting if the amount of the transaction exceeds 2% of the total assets of the Company as determined in accordance with RAS (Russian accounting standards):

- Transactions involving the entities where the shareholders of the Company have ownership interest of 20% or more;
- Transaction involving the entities where the management of the Company also act in management capacity.

31 Events subsequent to the reporting date

In January and February 2016, the Company received loan funds under the loan agreements with PJSC "VTB" for a total of RUB 9 208 083 thousand.

On 10 February 2016, the bonds of series BO-03 for the amount of RUB 5 000 000 thousand were repaid and coupon income in the amount of RUB 486 150 thousand was paid.

In February and March 2016 were repaid loans from PJSC "Sberbank" for a total of RUB 6 571 796 thousand.

No other significant events occurred after the balance sheet date that would require special explanation or adjustments in the consolidated financial statements.