MOSENERGO Group

International Financial Reporting Standards
Consolidated Interim Financial Statement
for the three months ended 31 March 2016 (unaudited)

MOSENERGO Group

Consolidated Interim Statement of Financial Position

(in millions of Russian Roubles)

	Note	31 March 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	227,049	229,348
Investment property	7	1,397	1,323
Investments in associates	9	1,159	3,978
Advances for acquisition of property, plant and equipment		1,952	1,933
Long-term financial assets	10	3,180	3,180
Trade and other receivables	11	18,204	14,284
Other non-current assets	12	9,058	10,707
Total non-current assets		**261,999**	**264,753**
Current assets			
Cash and cash equivalents	13	13,346	5,666
Short-term financial assets	10	881	894
Trade and other receivables	11	50,767	49,442
Inventories	14	8,768	8,361
Income tax receivable		667	668
Other current assets	12	643	394
		75,072	**65,425**
Assets classified as held for sale	8	228	229
Total current assets		**75,300**	**65,654**
Total assets		**337,299**	**330,407**
EQUITY AND LIABILITIES			
Equity	15		
Share capital		166,124	166,124
Treasury stock		(871)	(871)
Share premium		49,213	49,213
Reserves		116,590	116,578
Accumulated loss		(90,950)	(99,175)
Total equity		**240,106**	**231,869**
Non-current liabilities			
Non-current borrowings	16	45,307	45,857
Deferred tax liabilities	28	29,710	27,780
Employee benefits	17	372	376
Trade and other payables	18	4,796	4,801
Total non-current liabilities		**80,185**	**78,814**
Current liabilities			
Current borrowings and current portion of non-current borrowings	16	3,235	3,113
Trade and other payables	18	7,943	12,948
Income tax payable		132	790
Other taxes payable	19	3,886	1,070
Provisions	20	1,812	1,803
Total current liabilities		**17,008**	**19,724**
Total liabilities		**97,193**	**98,538**
Total equity and liabilities		**337,299**	**330,407**

Managing Director A.A. Butko

Chief Accountant E.Y. Novenkova

«13» may 2016

MOSENERGO Group

Consolidated Interim Statement of Cash Flows

(in millions of Russian Roubles)

	Note	Three months ended 31 March 2016	Three months ended 31 March 2015
Revenue	21	62.606	55.641
Other operating income	26	338	131
Cost of materials	22	(40.973)	(34.658)
Depreciation of property, plant and equipment	6	(3.683)	(4.454)
Heat transmission		(2.104)	(3.171)
Personnel expenses	24	(2.791)	(2.826)
Other external supplies	23	(1.054)	(874)
Maintenance and repairs expenses		(770)	(597)
Taxes other than income tax		(528)	(436)
Other operating expenses	25	(1.226)	(876)
Results from operating activities		**9,815**	**7,880**
Financial income	27	2.047	4.394
Financial expenses	27	(1.449)	(3.046)
Share of loss of associates accounted for using the equity method	9	(135)	-
Profit before income tax		**10,278**	**9,228**
Income tax expense	28	(2.070)	(1.798)
Profit for the period		**8,208**	**7,430**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement of post employee benefit obligation	28	12	3
Other comprehensive income for the period, net of tax		**12**	**3**
Total comprehensive income for the period		**8,220**	**7,433**
Profit attributable to:			
Equity holders of the Group		8.208	7.425
Non-controlling interest		-	5
Total comprehensive income is attributable to:			
Equity holders of the Group		8.220	7.428
Non-controlling interest		-	5
Basic and diluted earnings per share (in Russian Roubles)	29	0.21	0.19

Managing Director A.A. Butko

Chief Accountant E.Y. Novenkova

«13» may 2016

MOSENERGO Group

Consolidated Interim Statement of Cash Flows

(in millions of Russian Roubles)

	Note	Three months ended 31 March 2016	Three months ended 31 March 2015
Cash flow from operating activities			
Profit before income tax		**10,278**	**9,228**
Adjustments for:			
Depreciation of property, plant and equipment	6	3,683	4,454
Financial income	27	(2,043)	(4,394)
Financial expenses	27	1,449	3,046
Gain from withdrawal from subsidiaries	9,26	(101)	-
Trade and other receivables impairment loss and derecognition	25	406	244
(Gain)/loss on disposal of property, plant and equipment	25	(5)	50
Share of loss of associates accounted for using the equity method		135	-
Dividend income		(90)	-
Charge/(reversal) of provisions	20	9	(54)
Gain from disposal of assets classified as held for sale	26	(30)	(37)
Profit for the period		**13,691**	**12,537**
Change in trade and other receivables		(5,597)	(5,074)
Change in inventories		(408)	91
Change in other current and non-current assets		(3)	1,680
Change in taxes payables, other than income tax		2,816	1,085
Change in trade and other payables		(1,662)	(2,685)
Change in employee benefit		(15)	(3)
Cash flows from operations before income tax and interest paid		**8,822**	**7,631**
Income tax paid		(790)	(1,217)
Interest paid		(35)	(39)
Cash flows from operating activities		**7,997**	**6,375**
Cash flows used in investing activities			
Proceeds from sale of assets classified as held for sale		26	29
Proceeds from disposal of investments		32	285
Interest received		27	37
Repayment of loans issued		190	-
Dividend received		78	35
Acquisition of property, plant and equipment		(1,613)	(7,782)
Interest paid and capitalised		(646)	(636)
Grid connections		1,402	(1,622)
Acquisition of investments		(42)	(32)
Cash flows used in investing activities		**(546)**	**(9,686)**
Cash flows from financing activities			
Proceeds from borrowings		343	-
Repayment of borrowings		(135)	-
Dividend returned		17	-
Cash flows from financing activities		**225**	-
Net increase in cash and cash equivalents		7,676	(3,311)
Cash and cash equivalents at the beginning of the period	13	5,666	9,677
Exchange gain from cash and cash equivalents		4	-
Cash and cash equivalents at the end of the period	13	**13,346**	**6,366**

Managing Director A.A. Butko

Chief Accountant E.Y. Novenkova

«13» may 2016

MOSENERGO Group

Consolidated Interim Statement of Changes in Equity

(in millions of Russian Roubles)

	Note	Attributable to equity holders of the Group							
		Share capital	Treasury stock	Share premium	Reserves	Accumulated loss	Total	Non-controlling interest	Total Equity
Balance at 1 January 2015		166,124	(871)	49,213	121,204	(94,503)	241,167	528	241,695
Profit for the period		-	-	-	-	7,425	7,425	5	7,430
Other comprehensive income for the period:		-	-	-	-	-		-	
Remeasurement of post employee benefit obligation	28	-	-	-	3	-	3	-	3
Total comprehensive income for the period		-	-	-	3	7,425	7,428	5	7,433
Balance at 31 March 2015		166,124	(871)	49,213	121,207	(87,078)	248,595	533	249,128
Balance at 1 January 2016		166,124	(871)	49,213	116,578	(99,175)	231,869	-	231,869
Profit for the period		-	-	-	-	8,208	8,208	-	8,208
Other comprehensive income for the period:									
Remeasurement of post employee benefit obligation	28	-	-	-	12	-	12	-	12
Total comprehensive income for the period		-	-	-	12	8,208	8,220	-	8,220
Dividends returned		-	-	-	-	17	17	-	17
Balance at 31 March 2016		166,124	(871)	49,213	116,590	(90,950)	240,106	-	240,106

Managing Director A.A. Butko

Chief Accountant E.Y. Novenkova

«13» may 2016

Note 1. The Group and its operations

(a) Organisation and operations

The Public Joint Stock Company "Mosenergo" (the "Company") and its subsidiaries (together referred as the "Group" or the "Mosenergo Group") are primarily involved in the generation of heat and electric power and heat distribution services in the Moscow city and Moscow region.

The Group's power and heat generation base includes 15 power plants with operational capacity of approximately 13,038 megawatts ("MW") and 43,045 gigacalories/hour ("Gkal/h") of electricity and heat capacity.

PJSC "Mosenergo" was incorporated under the legislation of the Russian Federation at 6 April 1993 in accordance with State Property Management Committee Decree 169-R dated 26 March 1993 following the privatisation process of electricity and heat power generation, transmission and distribution assets formerly under control of the Ministry of Energy of the Russian Federation.

The Company's registered office is located at 101/3, Prospekt Vernadskogo, Moscow, 119526, Russian Federation.

On 10 June 2015 Open Joint Stock Company "Mosenergo" was renamed into Public Joint Stock Company "Mosenergo" . The change in the Company's legal status is reflected in the new version of the Articles of Association approved by the annual General Shareholders Meeting. The Company's name was changed with a view to bring it in line with the provisions of the Civil Code of the Russian Federation.

(b) Group formation

On 1 April 2005, the Company was reorganised through a spin-off following the reorganisation process within the Russian electric power industry aimed to introduce competition into the electricity market and to enable the companies of the electricity sector to maintain and further expand production capacity. The Company's restructuring was approved by general shareholder's meeting on 28 June 2004. Before the restructuring took place the Company operated an integrated utility model, which included generation, transmission and distribution activities. As a result of the restructuring 13 new entities were separated from the Company and each shareholder of the Company received ordinary shares of each of the separated entities pro rata to Company's shares held by them prior to spin-off.

A general shareholders' meeting held on 20 December 2006 approved a closed subscription for the additional shares issued in favor of PJSC "Gazprom" and its affiliates (together referred to as the "Gazprom Group"). As a result, the majority shareholder of PJSC "Mosenergo" changed from RAO UES of Russia to Gazprom Group holding 53.49% of ordinary shares. Following the reorganisation process, an extraordinary general shareholder's meeting of RAO UES of Russia on 26 October 2007 approved the spin-off of several holding companies to which shares in electricity generation companies, including PJSC "Mosenergo", held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in generation companies after reorganisation. Accordingly, upon spin-off from RAO UES of Russia OJSC "Mosenergo Holding" (the "Mosenergo Holding") received the stake in PJSC "Mosenergo" held by RAO UES of Russia. Simultaneously with the spin-off "Mosenergo Holding" was merged with the Company and its shares were converted into the Company's shares.

In February 2009, the Company's Board of Directors approved a program to improve the Company's organisational structure, which was aimed at concentrating production resources and optimising the labor capacity and supply chain. Organisational structure optimisation included the merger of several production branches situated geographically close to each other and reallocation and outsourcing of non-core functions.

In April 2009 PJSC "Gazprom" transferred its 53.49% share in the Company to its 100% subsidiary LLC "Gazprom energoholding" (previously - LLC "Gazoenergeticheskaya Kompaniya") which became the parent company of PJSC "Mosenergo".

In May 2015 the General Meeting of Shareholders decided to transfer the powers of the sole executive body of PJSC "Mosenergo" to management organization LLC "Gazprom energoholding".

(c) Business environment

The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation (Note 32). During the three months ended 31 March 2016 the Russian economy was impacted by a fluctuation in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

The financial markets continue to be volatile and are characterized by frequent significant price movements and increased trading spreads.

These events may have a significant impact on the Group's operations, its prospective financial position, operational results and business perspectives. Management believes it takes all the necessary measures to support the sustainability and development of the Group's business.

These consolidated financial statements reflect management's view on the impact of the current business environment in the Russian Federation on the Group's operations and financial position. Future economic and regulatory situation may differ from management's current expectations.

(d) Relations with the state and current regulation

At the end of the reporting period the Russian Federation owned (both direct and indirect ownership) over 50% in PJSC "Gazprom" (the previous "Parent"), which holds 53.49% of the Company through its 100% subsidiary LLC "Gazprom energoholding" (immediate parent company). Thus the PJSC "Gazprom" is the ultimate parent company of the Group and the Russian Federation is the ultimate controlling party of the Group.

The government of the Russian Federation directly affects the Group's operations through regulations of wholesale and retail sales of electricity and heat exercised by the Federal Antimonopoly Service (the "FAS") and Department of economic policy and development of Moscow and Committee on the prices and tariffs of the Moscow region.. Starting July 2015 OJSC "System Operator of the United Power System" (the "SO UPS"), which is controlled by the Russian Federation, regulates operations of generating assets of the Group.

The Group's customer base, as well as its supply chain, includes a large number of entities controlled by or related to the state.

As described in Note 5 and Note 32, the government's economic, social and other policies could materially affect operations of the Group.

(e) Industry restructuring

Following the restructuring of the Russian electric utility sector aimed to introduce competition into the electricity (capacity) market, the New Wholesale Electric Power (capacity) Market Rules of the Transitional period (the "NOREM"), approved by Resolution of the Government of the Russian Federation № 529 dated 31 August 2006, were adopted. Under this new framework, electricity and capacity purchase-sales transactions in the regulated market sector are to be governed by a regulated bilateral contract system. Starting 1 September 2006 regulated contracts covered all volumes of electricity and capacity produced and consumed.

Starting 2007, the volumes of electricity and capacity traded in the wholesale market applying regulated prices are to be substantially reduced pursuant to Russian Federation Government Resolution No. 205 dated 7 April 2007 "On amending certain resolutions of the Russian Federation Government related to the calculation of electricity volumes sold at free (competitive) prices". The Resolution states that electricity and capacity supplied at regulated prices will gradually decrease.

Electricity volumes produced, not covered by the regulated contracts, are traded at unregulated prices on the basis of free bilateral contracts or on a day-ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers the day before the electricity is supplied.

Starting from 2011, electricity and capacity (except for supplies to the population and equivalent consumer categories under regulated contracts) have been supplied at unregulated prices. Electricity is supplied at free prices on the day-ahead market and balancing market while capacity is supplied based on competitive capacity selection under the contracts for sales of capacity. Furthermore, separate contracts are concluded for capacity, which is generated by assets operating under forced mode and traded at tariffs approved by the Russian Federal Tariff Service (FTS). Starting to July 2015 functions of FST were transferred to FAS pursuant to the Russian Federation President Resolution No. 373 dated 21 July 2015 "On matters of state management and control in antimonopoly and tariff regulation". Non-regulated bilateral contracts for supply of electricity and capacity may be also concluded.

Agreements for the provision of facilities provide on the one hand the obligations for suppliers to implement approved investment programs, and on the other hand give a guarantee of payment capacity of the new (upgraded) generating facilities from the Russian Government.

Note 2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment and investment property are revalued periodically; available-for-sale financial assets are measured at fair value; and the carrying amounts of equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes at 1 January 2003.

The methods used to measure fair values are discussed further in Note 2.

(c) Functional and presentation currency

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

(d) Use of estimates and judgment

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 6 – impairment test: key assumptions underlying recoverable amounts;
- Note 17 – measurement of defined benefit obligation: key actuarial assumptions;
- Note 20, 32 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow;
- Note 33 – aggregation of operating segments;
- Note 10 – lack of significant influence in ivestment equity.

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 6 – fair value determination of property, plant and equipment;
- Note 7 – fair value determination of investment property;
- Note 8 – fair value determination of non-current assets classified as held for sale;
- Note 30 – fair value determination of financial instruments

(e) Correction of opening balance presentaion

The Group made correction of balance presentation at 1 January 2015 in Note 6. Property, plant and equipment. The appraised value and accumulated depreciation (including impairment) for the class "Transmission networks" was eliminated by impairment in amount of RR 2 883 million related to property and equipment transferred to assets classified as held for sale in the second half of 2014.

Note 3. Significant accounting policies

(a) Adoption of new or revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2016:

- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to the following standards:
  - IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'.
  - IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.
  - IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.
  - The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.
  - IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
  - IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards: IFRS 1, IFRS 3, IFRS 13 and IAS 40.

(b) New Standards and Interpretations

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted:

- IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:
  - Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
  - Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
  - Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
  - IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month

ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The amended standard did not have a material impact on the Group.
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.
- Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016) – Clarification of Acceptable Methods of Depreciation and Amortisation - In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.
- Amendments to IAS 27 – Equity Method in Separate Financial Statements (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards:
  - IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.
  - The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.
  - The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise.
  - IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS

contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

Unless otherwise described above, these standards, amendments to standards and interpretations did not have a material impact on these consolidated financial statements.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation, on a transaction by transaction basis at the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity

(ii) Transfers of subsidiaries from parties under common control

Transfers of subsidiaries between parties under common control are accounted for using the predecessor basis of accounting method. Under this method the assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's carrying amounts. The financial statements incorporate the acquired entity's results from the date on which the transaction occurred. The corresponding figures of the previous year are not restated. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment within equity.

(iii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing 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.

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(e) Financial instruments

(i) Non-derivative financial instruments

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise of cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Loans and receivables consist of financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group upon initial recognition designates at fair value through profit or loss.

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.

Available-for-sale financial assets. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains or losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Share capital

Ordinary shares. Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury stock). When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(f) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the balance sheet date. Increase in the carrying amount of property, plant and equipment as a result of revaluation is credited directly to other comprehensive income under the heading reserve, unless the decrease of the reserve was previously recognised in profit or loss. Decrease in the carrying amount shall be debited to other comprehensive income to the extent of any credit balance existing in the revaluation reserve. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revaluated amount of the asset.

The tax effects from the revaluation of property, plant and equipment are recognised in other comprehensive income and accumulated in equity.

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

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs, and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

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.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other operating expenses" in profit or loss. The revaluation surplus is not transferred from reserve when the assets are disposed.

(ii) Reclassification to investment property

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent the gain reverses previous impairment loss on a specific property, with any remaining gain recognised in the revaluation reserve directly in other comprehensive income. Any loss is recognised in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss.

(iii) Subsequent costs

The cost of replacing 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 carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

(iv) Depreciation

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. Leased assets under finance lease 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 lease term. Depreciation of an asset begins when it is available for use.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

As part of revaluation at 31 December 2013 estimates in respect of useful lives of certain classes of property, plant and equipment were revised for the year 2016 and were as follows:

• Buildings and constructions	30-70 years
• Plant and equipment	25-40 years
• Transmission networks	30 years
• Other	5-25 years

(g) Intangible assets

(i) Goodwill

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill, bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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 profit or loss as incurred.

(iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of the software for the current and comparative periods equal to 7 years.

(h) Investment property

Investment property is property or construction in progress held or constructed either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Any change in fair value is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

When the carrying amount of property is to be recovered principally through a sale transaction rather than through continuing use the property is remeasured to fair value and reclassified as assets held for sale. Any gain or loss on the remeasurement recognised in profit or loss.

(i) 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.

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost 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. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(k) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in 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. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Impairment losses for available-for-sale financial assets are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period’s profit or loss.

(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.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”). To calculate the recoverable amount in respect of a specific group of assets, the Group uses the fair value method, based on the possibility of alternative use. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in other comprehensive income if revaluation reserve existing to such assets, otherwise in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

(iii) Non-current assets held for sale

Non – current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. Immediately before classification as held-for-sale, the assets are remeasured in accordance with the Group’s accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, investment property and biological assets, which continue to be measured in accordance with the Group’s accounting policies. Impairment loss is recognised in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

(l) Employee benefits

(i) Defined contribution pension plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(ii) Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in year in which they arise.

Current service cost, interest on employee benefit obligations, past service cost, effect of curtailment and settlement are recognised to profit or loss.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Russian 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 actuarial gains or losses are recognised in profit or loss in year in which they arise.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

(v) 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.

(m) 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.

(n) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief operating decision-maker. The Chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors including Managing Director who makes strategic decisions.

(o) Revenues

(i) Goods sold

Revenues from sales of electricity and heat are recognised when electricity and heat are supplied to customers.

Revenue from the sale of goods other than electricity and heat is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(p) Government subsidies

Government subsidies are assistance by government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Company.

Government subsidies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the subsidy. Subsidies that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Government subsidies that compensate the Company for the cost of an asset are recognised in the statement of comprehensive income on a systematic basis over the useful life of the asset. Unconditional government subsidies are recognised on profit or loss when subsidy becomes receivable. Government subsidies for the compensation of the difference between tariffs set to the urban population and the tariffs of the Company are recognised as income and included in other operating income.

(q) 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.

(r) Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on certain financial assets. All borrowing costs are recognised in profit or loss using the effective interest method except for those which are capitalised.

Foreign currency gains and losses are reported on gross basis.

(s) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the consolidated statement of changes in equity.

Current tax is the expected tax payable on the taxable income 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 using the balance sheet method, providing for 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 the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable the profit or loss, and differences relating to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for 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 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 liabilities and assets, 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference 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.

(t) Uncertain tax positions

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

(u) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees. There are no dilutive potential ordinary shares as of 31 March 2016 and 31 December 2015.

Note 4. Financial risk management

(a) Overview

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

- credit risk;
- liquidity risk, and
- 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 Managing Director has overall responsibility for proper functioning of the Group's internal controls system. The Board of Directors establishes and oversights of the Group's risk management framework and control environment mitigating those risks. The Audit Committee as part of Board of Directors evaluates the internal controls system effectiveness. The Group's Audit Committee is assisted in its oversight role by the Department of Internal Audit, who oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Department of Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The risk management functions are performed by several departments of the Company. Credit risk is considered by the Department of Liquidity and Credit. Liquidity risk is addressed by the Efficiency and Control union. These departments are accountable to the Deputies of Managing Director who supervises and coordinates the work of the risk management system.

The Group's risk management policies are summarised in the Company's Regulations on Risk Management which are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, 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 procedures carried out in relation to the Company's risk analysis include examination of the customers reliability, analysis of bank guarantees for prepayments given to suppliers, bank currency position analysis, sensitivity analysis of exchange and interest rates for borrowings, budget implementation analysis etc.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive internal 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 and investment securities.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Geographically credit risk is concentrated in the city of Moscow and Moscow Region as most of sales are made in this area. Creditworthiness of existing customers is periodically evaluated based on internal and external information regarding history of settlements with these customers. The Group constantly analyses accounts receivable turnover ratios, maturity dates and takes appropriate measures on collection of debts due. Approximately 90-95% of the customers are the clients of the Group for a period longer than 2-3 years.

There are standard contract terms for any customer purchasing energy under regulated contracts, the day-ahead market or the balancing market. Special conditions are envisaged by the Russian legislation on Power industry for some heat consumers such as state companies, housing organisations and entities, which may not be limited or refused energy supply because it can lead to casualties or other harmful aftermath (hospitals, schools etc.). Currently no upper limits for debt due from a single customer are established.

In monitoring customer credit risk, customers are grouped according to the accounts receivable type and maturity dates. Accounts receivable are divided into three major groups, which are not past due, past due and irrecoverable accounts receivable. As early as an account receivable is classified as past due are taken on collection of debt due, which include oral and written notices, instituting a claim, putting in a late payment penalty etc.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have high credit rating provided by rating agencies, except for related parties. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(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 approach to managing liquidity 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, without incurring unacceptable losses or risking damage to the Group's reputation.

The liquidity risk management is performed on three different levels. Long-term policies are incorporated in the overall financial model of the Company. Middle-term monitoring is fulfilled during the quarterly and monthly planning of the Group's budgets. Short-term actions include planning and control of daily cash receipts and payments of the Company.

Liquidity management system includes also drawing up monthly, quarterly and yearly cash budgets, comparing actual amounts to planned and explaining any discrepancies found.

(d) Market risk

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

(i) Currency risk

The Group is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currency in which these transactions primarily are denominated is Euro.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

To minimise currency risk the Group prepares budgets taking into account possible changes in exchange rates, creates special reserves to cover contingent expenses and losses.

(ii) 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 favorable to the Group over the expected period until maturity.

(in millions of Russian Roubles)

The Group constantly analyses dynamics of variable interest rates. To minimise interest rate risk the Group prepares budgets taking into account possible changes of interest rates creates special reserves to cover contingent expenses and losses. Currently the Group considers the possibility of hedging currency risks using corresponding derivatives in the future.

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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 profit divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

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

Consistent with other companies of the industry, the Group monitors capital on the basis of the gearing ratio. The 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, plus the net debt.

The gearing ratios at 31 March 2016 and at 31 December 2015 were as follows:

	31 March 2016	**31 December 2015**
Borrowings (Note 16)	(48,542)	(48,970)
Cash and cash equivalents (Note 13)	13,346	5,666
Net debt	**(35,196)**	**(43,304)**
Equity attributable to equity holders of the Group	(240,106)	(231,869)
Total capital	**(275,302)**	**(275,173)**
Gearing ratio	**12.78%**	**15.74%**

(i) Loans' covenants

In accordance with loan facilities the Group maintains an optimal capital structure by tracking certain requirements:

- the maximum level of Net financial Debt/EBITDA;
- minimum level of EBITDA/Interest expense, and
- minimum level of own paid tangible assets.

These ratios are included as covenants into loan agreements (Note 16). The Group is in compliance with externally imposed capital requirements.

(ii) Legislation requirements

The Group is subject to the following externally imposed capital requirements that have been established for joint stock companies by the legislation of Russian Federation:

- share capital cannot be lower than 1,000 minimum shares at the date of the company registration;
- if the share capital of the entity is greater than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets, and
- if the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

At 31 March 2016 the Group was in compliance with the above share capital requirements.

(in millions of Russian Roubles)

Note 5. Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the three months ended 31 March 2016 and 31 March 2015, or had significant balances outstanding at 31 March 2016 and at 31 December 2015 are detailed below. PJSC "Gazprom" is an ultimate parent company of PJSC "Mosenergo" during the current and prior reporting periods. The Russian Federation is the ultimate controlling party of the Group during the current and prior reporting periods.

(a) Transactions with Gazprom Group and its associates

The Group has the following turnover and balances outstanding with Gazprom Group and its associates.

Revenue

	Three months ended 31 March 2016	**Three months ended 31 March 2015**
Heat	26,103	17,401
Electricity	1,179	480
Other revenue	338	513
Total	**27,620**	**18,394**

Other operating income and loss

	Three months ended 31 March 2016	**Three months ended 31 March 2015**
Gain from withdrawal from subsidiaries	101	-
Total	**101**	**-**

Expenses

	Three months ended 31 March 2016	**Three months ended 31 March 2015**
Fuel expenses	(30,358)	(27,849)
Heat transmission	(2,093)	(3,162)
Maintenance and repair expenses	(415)	(335)
Purchased heat and electricity	(324)	(124)
Rent payments	(126)	(197)
Cleaning services	(66)	(46)
Transport services	(62)	(51)
Agency fee	(59)	(45)
Insurance expenses	(56)	(54)
Voluntary medical insurance expenses	(44)	(35)
Legal, consulting and data processing services	(42)	(88)
Other expenses	(28)	(17)
Total	**(33,673)**	**(32,003)**

Rent payments for the three months ended 31 March 2016 include payments in the amount of RR 65 million to LLC "Neftyanoi dom", an associate of PJSC "Gazprom" (for the three months ended 31 March 2015: RR 59 million).

(in millions of Russian Roubles)

Financial income and expenses

	Three months ended 31 March 2016	Three months ended 31 March 2015
Financial income	136	92
Financial expense	(35)	(30)
Net financial income	**101**	**62**

Financial income for the three months ended 31 March 2016 include income associated to transactions with JSC "Gazprombank", an associate of PJSC "Gazprom" , in the amount of RR 36 million (for the three months ended 31 March 2015: RR 66 million).

Outstanding balance

	Outstanding balance at 31 March 2016	Outstanding balance at 31 December 2015
Cash and cash equivalents	2,503	4,065
Investments	71	102
Trade and other receivables	37,618	33,739
Advances for acquisition of property, plant and equipment	64	185
Loans issued	11,768	11,958
Total assets	**52,024**	**50,049**
Trade and other payables	(6,549)	(10,625)
Total liabilities	**(6,549)**	**(10,625)**

Trade and other receivables include an outstanding balance with PJSC "MOEK", subsidiary of PJSC "Gazprom", in the amount of RR 28,322 million at 31 March 2016 (at 31 December 2015: RR 27,239 million). There was no provision for impairment of trade and other receivables mentioned above at 31 March 2016 and 31 December 2015, respectively.

Advances for acquisition of property, plant and equipment include an outstanding balance with CJSC "Mezhregion-Energostroy", a subsidiary of PJSC "Gazprom", in the amount of RR 23 million at 31 March 2016 (at 31 December 2015: RR 128 million).

Cash and cash equivalents at 31 March 2016 and 31 December 2015 are from JSC "Gazprombank", an associate of PJSC "Gazprom".

Trade and other payables include outstanding balances with PJSC "MOEK", LLC "Mezhregion-Energostroy" and LLC "Gazprom mezhregiongaz Moskva", subsidiaries of PJSC "Gazprom", in the amount of RR 4,551 million, RR 1,077 million and RR 106 million, respectively, at 31 March 2016 (at 31 December 2015: RR 8,072 million, RR 1,169 million, RR 112 million,

During 2015 the Company purchased heating stations from PJSC "MOEK" and LLC "Gazpromenergoholding". This transaction was treated as transaction under common control, was recognised at the predecessor entity's carrying amounts and equaled to RR 2,664 million and RR 352 million, respectively. The difference between the total consideration given and the carrying amounts of the assets was recognised in equity.

Borrowings

	Amount loaned for the Three months ended 31 March 2016	Amount loaned for the Three months ended 31 March 2015	Outstanding balance at 31 March 2016	Outstanding balance at 31 December 2015
Current borrowings	343	-	1,192	880
Total borrowings	**343**	**-**	**1,192**	**880**

(b) Transactions with key management and management organization

Key management personnel (the members of the Board of Directors and Management Committee of the Company) received the following remuneration, which is included in personnel expenses:

(in millions of Russian Roubles)

	Three months ended 31 March 2016	Three months ended 31 March 2015
Wages and salaries	(3)	(30)
Social taxes and contributions	-	(5)
Total	**(3)**	**(35)**

Remuneration to management organization LLC "Gazprom energoholding" for the three months ended 31 March 2016 was in the amount of RR 36 million (for the three months ended 31 March 2015: RR 0 million).

(c) Transactions with other state-controlled entities

Information below excludes transactions and outstanding balances with Gazprom Group and its associates as disclosed in Note 5(a).

In the normal course of business the Group enters into transactions with other entities, which are under control of the Russian Federation government.

Revenue

	Three months ended 31 March 2016	Three months ended 31 March 2015
Electricity	23,397	21,754
Heat	2,086	3,781
Other revenue	69	75
Total	**25,552**	**25,610**

Expenses

	Three months ended 31 March 2016	Three months ended 31 March 2015
Purchased heat and electricity	(2,509)	(2,132)
Electricity market administration fees	(353)	(366)
Rent payments	(333)	(250)
Water usage expenses	(327)	(273)
Security services	(105)	(97)
Grid connections	(85)	-
Fuel expenses	(42)	(36)
Repair and maintanance services	(18)	(2)
Heat transmission	(11)	(9)
Legal, consulting and data processing services	-	(11)
Communication services	-	(9)
Fire prevention services	-	(7)
Other expenses	(13)	(7)
Total	**(3,796)**	**(3,199)**

(in millions of Russian Roubles)

Financial income and expenses

	Three months ended 31 March 2016	Three months ended 31 March 2015
Financial income	138	201
Financial expense	(672)	(666)
Net financial expense	**(534)**	**(465)**

Outstanding balance

	Outstanding balance at 31 March 2016	Outstanding balance at 31 December 2015
Cash and equiavelents	6,011	704
Investments	624	609
Trade and other receivables	9,844	10,454
Advances for acquisition of property, plant and equipment	9	1
Grid connections	8,991	10,392
Other non-current assets	523	523
Total assets	**26,002**	**22,683**
Trade and other payables	(574)	(2,388)
Total liabilities	**(574)**	**(2,388)**

The Group is a party of Capacity Supply Contracts, Note 32.

Borrowings

	Amount loaned for the Three months ended 31 March 2016	Amount loaned for the Three months ended 31 March 2015	Outstanding balance at 31 March 2016	Outstanding balance at 31 December 2015
Non-current borrowings	-	-	31,750	31,750
Total borrowings	**-**	**-**	**31,750**	**31,750**

(in millions of Russian Roubles)

Note 6. Property, plant and equipment

Appraised value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2015	**113,126**	**113,314**	**3,124**	**11,039**	**53,741**	**294,344**
Additions	37	25	-	1	3,174	**3,237**
Disposals	(11)	(45)	-	(2)	-	**(58)**
Transfers	692	291	24	111	(1,118)	**-**
Transfer from/(to) other accounts	(16)	(11)	(1)	(5)	(110)	**(143)**
Balance at 31 March 2015	**113,828**	**113,574**	**3,147**	**11,144**	**55,687**	**297,380**
Balance at 1 January 2016	**117,513**	**116,388**	**2,968**	**15,088**	**40,480**	**292,437**
Additions	-	4	-	-	1,465	**1,469**
Disposals	-	(2)	-	(2)	-	**(4)**
Transfers	4,898	11,580	-	671	(17,149)	**-**
Transfer from/(to) other accounts	(79)	-	-	(9)	-	**(88)**
Balance at 31 March 2016	**122,332**	**127,970**	**2,968**	**15,748**	**24,796**	**293,814**

Accumulated depreciation (including impairment)

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2015	**(9,462)**	**(13,379)**	**(435)**	**(1,610)**	**(6,171)**	**(31,057)**
Depreciation charge	(1,325)	(2,316)	(70)	(741)	-	**(4,452)**
Disposals	-	12	-	-	-	**12**
Transfer from/(to) other accounts	1	1	-	1	-	**3**
Balance at 31 March 2015	**(10,786)**	**(15,682)**	**(505)**	**(2,350)**	**(6,171)**	**(35,494)**
Balance at 1 January 2016	**(21,654)**	**(29,687)**	**(719)**	**(4,907)**	**(6,122)**	**(63,089)**
Depreciation charge	(1,240)	(1,984)	(80)	(381)	-	**(3,685)**
Transfers	(769)	(1,440)	-	(25)	2,234	**-**
Disposals	-	1	-	4	-	**5**
Transfer from/(to) other accounts	(1)	-	-	5	-	**4**
Balance at 31 March 2016	**(23,664)**	**(33,110)**	**(799)**	**(5,304)**	**(3,888)**	**(66,765)**

Net book value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2015	103,664	99,935	2,689	9,429	47,570	**263,287**
At 31 March 2015	103,042	97,892	2,642	8,794	49,516	**261,886**
At 1 January 2016	95,859	86,701	2,249	10,181	34,358	**229,348**
At 31 March 2016	98,668	94,860	2,169	10,444	20,908	**227,049**

Net book value had no revaluation taken place

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2015	46,955	69,192	1,226	4,393	50,794	**172,560**
At 31 March 2015	42,870	67,374	962	6,409	49,947	**167,561**
At 1 January 2016	47,549	56,890	1,158	8,006	36,863	**150,466**
At 31 March 2016	52,985	67,107	1,121	8,379	19,806	**149,398**

(in millions of Russian Roubles)

Borrowing costs of RR 248 million for the three months ended 31 March 2016 are capitalised in additions above (RR 870 million for the three months ended 31 March 2015). Capitalisation rates of 5.95% and 8.43% for the three months ended 31 March 2016 and 31 March 2015, respectively, were used to determine the amount of borrowing costs eligible for capitalization. The capitalisation rate represented the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

There were no properties pledged as security for the Company's bank loans at 31 March 2016 and at 31 December 2015.

(a) Revaluation

The Group changed its accounting policy in respect of property, plant and equipment measurement from a cost model to a revaluation model starting from 1 January 2007 in order to provide users of the financial statements with more reliable information about the value of the Group's property, plant and equipment.

In 2013 the Group contracted an independent appraiser to estimate the fair value of the Group's property, plant and equipment and investment property at 31 December 2013. The fair value of property, plant and equipment was determined to be RR 273,766 million. As a result of revaluation, the Group's equity increased by RR 46,771 million, comprising net increase in the carrying value of property, plant and equipment of RR 58,464 million and the related deferred tax of RR 11,693 million.

Net increase in the carrying value of property, plant and equipment amounted to RR 57,562 million consisted of increase in amount of RR 67,597 million related to revaluation recognized within the equity and decrease of RR 10,035 million related to impairment charge out of which RR 9,133 million were recognized within the equity and RR 902 million were recognized in the interim consolidated income statement.

No revaluations were performed at 31 March 2016 as the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The fair value measurement for property, plant and equipment was categorised as a Level 3 fair value based on inputs to the valuation technique used (Note 2).

b) Impairment

At 31 December 2015 the Group performed impairment test for each cash generating units (CGU) to which the individual assets are allocated, power plants. As result, during 2015 impairment loss in amount of RR 10,280 million was recognized in the interim consolidated income statement and in amount of RR 5,498 million within equity.

During 2015 other impairment amounted to RR 103 million was recognised in the amount of RR 101 million within the equity and RR 2 million in the interim consolidated income statement. This impairment was mainly caused by the classification of property, plant and equipment as assets held for sale at the lower of its carrying amount and fair value less costs to sell (Note 8).

The Group assessed whether there were any indicators that the Group assets for cash generating units may be impaired. No impairment was identified at 31 March 2016.

It is reasonably possible, on the basis of existing knowledge, that outcomes within the next accounting period that are different from the assumptions used could require a material adjustment to the carrying amount of certain CGUs.

(c) Leased assets

The Group leases property, plant and equipment under a number of finance lease agreements. All leases provide the Group with the option to purchase the buildings and equipment at a beneficial price. The leased plant and equipment secures lease obligations (Note 31). At 31 March 2016 the net carrying amount of leased plant and equipment was RR 452 million (at 31 December 2015: RR 486 million).

Note 7. Investment property

	2016	2015
Balance at 1 January	**1,323**	**805**
Transfer from/to property, plant and equipment	74	528
Disposals	-	(10)
Balance at 31 March	**1,397**	**1,323**

The fair value of investment property at 31 March 2016 was determined to be RR 1,397 million (at 31 December 2015: RR 1,323 million) and based on the market trends for the year 2016.

The fair value measurement for investment property was categorised as a Level 3 fair value based on inputs to the valuation technique used (Note 2).

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

(in millions of Russian Roubles)

Valuation technique	Significant unobservable inputs
Market approach	Market prices for identical assets

Rental income for the three months ended 31 March 2016 amounted to RR 34 million (for the three months ended 31 March 2015 amounted to RR 47 million), was recognised in the consolidated interim statement of comprehensive income.

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	31 March 2016	31 December 2015
Less than one year	320	220
Between one and five years	-	-
More than five years	-	-
Total	**320**	**220**

Note 8. Disposal group classified as held for sale

(a) Assets and disposals group classified as held for sale

	31 March 2016	31 December 2015
Assets classified as held for sale		
Property, plant and equipment	178	172
Deferred tax assets	50	57
Total	**228**	**229**

At 31 March 2016 the Group is in the process of disposing of non-core assets in the amount of RR 228 million and the corresponding liabilities in the amount of RR 0 million (at 31 December 2015: RR 229 million and RR 0 million, respectively). The sale is expected during 2016-2017.

The fair value measurement for assets and disposal group classified as held for sale was categorised as a Level 3 fair value based on inputs to the valuation technique used (Note 2).

The following table shows the valuation technique used in measuring the fair value, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
Cost approach	Replacement cost and index method
Discounted Cash Flows	EBITDA
	Risk-adjusted discount rate

Note 9. Investments in associates

	2016	2015
Balance at 1 January	**3,978**	
Share of loss of associates	(135)	-
Disposal from investments in associates	(2,684)	-
Balance at 31 March	**1,159**	**-**

The following table summarised financial information about each investments in associates and reconciliation with the book value of investments of Group:

	Ownership interest	Country of incoporation and place of business	Nature of business	31 March 2016		Three months ended 31 марта 2016	
				Assets	Liabilities	Revenue	Loss
LLC "OGK-Investproject"	-	Russia	Construction	17,471	12,895	2,852	(224)
LLC "TSK Mosenergo"	25.6%	Russia	Heat and water supplier	8,761	4,236	4,404	(136)

(in millions of Russian Roubles)

	Ownership interest	Country of incoporation and place of business	Nature of business	31 December 2015		Three months ended 31 марта 2015	
				Assets	Liabilities	Выручка	Loss
LLC "OGK-Investproject"	45.0%	Russia	Construction	20,049	13,213	-	-
LLC "TSK Mosenergo"	25.6%	Russia	Heat and water supplier	8,706	4,045	-	-

On March 2016 the Company sold its 45.0% interest in LLC "OGK-Investproject" for considiration of RR 2,784 million. Gain from disposal of interest in the amount RR 101 million has been recognised in the consolidated iInterim statement of comprehensive income within other operating income (Note 26).

Note 10. Financial assets

	31 March 2016	31 December 2015
Investments held-to-maturity		
Deposits	624	609
Promissory notes	257	285
Short-term financial assets	**881**	**894**
Available-for-sale financial assets	3,180	3,180
Long-term financial assets	**3,180**	**3,180**

The Group's exposure to credit, currency and interest risks related to investments is disclosed in Note 30.

(a) Available-for-sale financial assets

Available-for-sale financial assets include equity instrument of LLC "Gazeks-Management" in the amount of RR 3,149 million at 31 March 2016 that was received in settlement for accounts receivable in October 2013 (31 December 2015: RR 3,149 million).

Management assessed the level of the Company's influence on LLC "Gazeks-Management", and concluded that despite holding 33.3% of shares the Company has no significant influence due to the following factors:

• PJSC "Mosenergo" does not have any representative in the LLC "Gazeks-Management" Board of Directors and does not have a right to appoint them;

• PJSC "Mosenergo" does not participate in LLC "Gazeks-Management" policy-making decisions and does not have a right to participate in such policy-making decisions;

• There are no material transactions between the Group and LLC "Gazeks-Management", there is no interchange of personnel between the two companies and there is no sharing of technical information between the companies.

Note 11. Trade and other receivables

	31 March 2016	31 December 2015
Trade receivables	51,962	47,589
Loans issued	11,768	11,958
Other receivables	1,044	653
Financial assets	**64,774**	**60,200**
Advances to suppliers and prepaid expenses	3,778	3,093
VAT recoverable	229	237
Taxes other than income tax prepaid	67	73
Other receivables	123	123
Total	**68,971**	**63,726**
Non-current assets	18,204	14,284
Current assets	50,767	49,442
Total	**68,971**	**63,726**

Trade receivables balances are recorded net of provision for impairment in amount of RR 8,044 million and RR 7,832 million at 31 March 2016 and at 31 December 2015, respectively.

Other receivables balances are recorded net of provision for impairment in amount of RR 184 million and RR 140 million at 31 March 2016 and at 31 December 2015, respectively.

(in millions of Russian Roubles)

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 30.

Note 12. Other assets

	31 March 2016	31 December 2015
Other non-current assets		
Grid connections	8,359	10,013
Constructed assets financed by the government of Moscow city	523	523
Intangible assets	170	167
Other assets	6	4
Total	**9,058**	**10,707**
Other current assets		
Grid connections	631	380
VAT recovered from advances for capital construction	10	13
Other assets	2	1
Total	**643**	**394**

(a) Constructed assets

Since June 2005 the Group was engaged in the construction of the power plant to be jointly used by the Group and the government of Moscow city. Construction of the distribution unit is jointly financed and shall be distributed between the parties involved upon completion. Included in other payables and accrued expenses is a liability to the government of Moscow city amounting to RR 523 million.

Note 13. Cash and cash equivalents

	31 March 2016	31 December 2015
Call deposits	8,511	4,763
Bank balances	4,835	903
Total	**13,346**	**5,666**

Call deposits are classified as cash equivalents when their original maturity is three month or less.

Note 14. Inventories

	31 March 2016	31 December 2015
Fuel	4,536	4,290
Raw materials and supplies	4,232	4,071
Total	**8,768**	**8,361**

Raw materials and supplies are show net of a provision for obsolete inventory and an andjustment for slow-moving inventory of RR 4 million at 31 March 2016 (at 31 December 2015: RR 5 million) .

Inventories held by the Group are not subject to any retention of title clauses.

Note 15. Equity

a) Share capital and share premium

At 31 March 2016 the authorised share capital comprised 39,749,359,700 ordinary shares (at 31 December 2015: 39,749,359,700) of RR 1.00 par value each. All issued shares are fully paid.

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 Company. In respect of the Company's shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

Share premium amounted to RR 49,213 million represents excess of the cash proceeds from the issue of share capital over its par value net of the transaction costs amounted to RR 7 million.

(in millions of Russian Roubles)

(b) Treasury stock

The treasury stock at 31 March 2016 and at 31 December 2015 amounted to RR 871 million.

No decisions regarding further operations with treasury stock were made by the Company's management.

(c) Reserves

At 31 March 2016 reserves composed of the revaluation reserve relates to the revaluation of property, plant and equipment in the amount of RR 116,671 million (at 31 December 2015: RR 116,678 million) and reserve for post employee benefit obligation remeasurement in amount of RR (81) million (at 31 December 2015: RR (93) million).

(d) Dividends

In 10 June 2015 the general shareholders meeting of the Company made the decision to pay dividends for the result of financial year 2014. The amount of declared dividends on the issuer shares was RR 0.01 per share, total amount of dividends is RR 396 million. The amount of dividends in the consolidated statement of changes in equity was presented net of unclaimed dividends for the result of financial year 2010 amount to RR 12 million.

The decision related to dividends for fiscal year 2015 is scheduled at the general shareholder's meeting in 31 May 2016.

Note 16. Borrowings

The note provides information about the contractual terms of the Group's interest-bearing borrowings, which are measured at amortised cost.

	31 March 2016	31 December 2015
Non-current borrowings		
Unsecured bank loans	45,307	45,857
Total	**45,307**	**45,857**
Current borrowings and current portion of non-current borrowings		
Current portion of unsecured bond issues	-	105
Current portion of unsecured bank loans	2,043	2,128
Other loans	1,192	880
Total	**3,235**	**3,113**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding liabilities are as follows:

	Currency	Nominal interest rate	Year of maturity	31 March 2016 Face value	31 March 2016 Carrying amount	31 December 2015 Face value	31 December 2015 Carrying amount
Unsecured bank loans				**47,897**	**47,350**	**48,564**	**47,985**
PJSC "Sberbank Rossii"	Russian Roubles	8.14%	2018	23,500	23,500	23,500	23,500
PJSC "VTB"	Russian Roubles	8.14%	2018	8,250	8,250	8,250	8,250
BNP Paribas	EURO	EURIBOR 6M+2.00%	2022	8,532	8,199	8,884	8,531
Credit Agricole CIB Deutschland	EURO	EURIBOR 6M+1.95%	2024	7,615	7,401	7,930	7,704
Unsecured bond issues				-	-	**105**	**105**
Unsecured bond issue № 2	Russian Roubles	8.25%	2016	-	-	105	105
Other loans				**1,192**	**1,192**	**880**	**880**
LLC "TSK-Mosenergo"	Russian Roubles	14.10%	2016	200	200	200	200
LLC "TSK-Mosenergo"	Russian Roubles	14.10%	2016	992	992	680	680
Total				**49,089**	**48,542**	**49,549**	**48,970**

(in millions of Russian Roubles)

Note 17. Employee benefits

The Group sponsors a post-employment and other long-term benefit program that covers the majority of the Group's employees. The plan principally consists of a defined contribution plan enabling employees to contribute a portion of their salary to the plan and equivalent portion of contribution from the Group. The plan is administrated by non-state pension fund.

To be entitled for participation in this defined contribution pension plan an employee should meet certain age and past service requirements. Maximum possible amount of employer's contribution is limited and depends on employee's position in the Group. In addition to defined contribution pension plan the Group maintains several plans of a defined benefit nature which are provided in accordance with collective bargaining agreement and other documents. The main benefits provided under this agreement are a lump sum upon retirement and material assistance.

A new collective bargaining agreement came into force from 1 January 2016. There were no significant changes in benefits provided via the agreement compared to the version effective in the prior year.

(a) Movement in the present value of the defined benefit obligation

	2016			2015		
	Post-emloyment benefits	Other long-term benefits	Total	Post-emloyment benefits	Other long-term benefits	Total
Balance at 1 January	286	90	**376**	201	73	**274**
Current service cost	2	2	**4**	2	2	**4**
Interest on employee benefit obligations	9	3	**12**	6	2	**8**
Remeasurements:						
Actuarial (gains)/losses - Experience	(16)	1	**(15)**	(4)	-	**(4)**
Benefits paid	(4)	(1)	**(5)**	(3)	-	**(3)**
Balance at 31 March	**277**	**95**	**372**	**202**	**77**	**279**

(b) Amounts recognised in profit and loss in respect of these defined benefit plans are as follows

	Three months ended 31 March 2016			Three months ended 31 March 2015		
	Post-emoyment benefits	Other long-term benefits	Total	Post-emoyment benefits	Other long-term benefits	Total
Service cost:						
Current service cost	2	2	**4**	2	2	**4**
Interest on employee benefit obligations	9	3	**12**	6	2	**8**
Components of defined benefit costs recorded in profit or loss	**11**	**5**	**16**	**8**	**4**	**12**

(c) Amounts recognised in other comprehensive income in respect of these defined benefit plans

	Three months ended 31 March 2016			Three months ended 31 March 2015		
	Post-emoyment benefits	Other long-term benefits	Total	Post-emoyment benefits	Other long-term benefits	Total
Remeasurement on the net defined benefit liability						
Remeasurement (gaines)/losses - Experience	(16)	1	**(15)**	(4)	-	**(4)**
Components of defined benefit costs recorded in other comprehensive income	**(16)**	**1**	**(15)**	**(4)**	**-**	**(4)**

(in millions of Russian Roubles)

(d) The amount included in the consolidated statement of financial position

	31 March 2016			31 December 2015		
	Post-emoyment benefits	Other long-term benefits	Total	Post-emoyment benefits	Other long-term benefits	Total
Present value of defined benefit obligation	277	95	**372**	286	90	**376**
Net liability arising from defined benefit obligation	**277**	**95**	**372**	**286**	**90**	**376**

(e) Movements in net liability in the current period were as follows

	2016			2015		
	Post-emoyment benefits	Other long-term benefits	Total	Post-emoyment benefits	Other long-term benefits	Total
Balance at 1 January	286	90	**376**	201	73	**274**
Components of defined benefit costs recorded in profit or loss	11	5	**16**	8	4	**12**
Components of defined benefit costs recorded in other comprehensive income	(16)	1	**(15)**	(4)	-	**(4)**
Contributions from the employer	(4)	(1)	**(5)**	(3)	-	**(3)**
Balance at 31 March	**277**	**95**	**372**	**202**	**77**	**279**

(f) Actuarial assumptions

Principal actuarial assumptions (expressed as weighted averages) are as follows:

(i) Financial assumptions

	31 March 2016	31 December 2015
Discount rate	9.5%	9.5%
Inflation rate	6.0%	6.0%
Salaries increase	8.0%	8.0%
Duration of liabilities, years	5.1	5.1
Social contributions	Calculated for each participant based on limits and rates stated in social contribution rule	Calculated for each participant based on limits and rates stated in social contribution rule

(ii) Demographic assumptions

Withdrawal rates assumption is as follows: expected staff turnover rates vary depending on employee past service in range from 25% p.a. for employees with 1 year of past service to around 6% p.a. for those who have 20 or more years of service. Compared to previous period the changes in the assumption are insignificant.

Retirement ages assumption is as follows: average retirement ages are 62,5 years for men and 59 years for women. Very similar retirement ages were used in previous period.

Mortality table: Russian urban population mortality table 2011.

(g) Sensitivity analysis of defined benefit obligation to significant actuarial assumptions

	31 December 2015			
	Change in assumption	Post-emoyment benefits	Other long-term benefits	Total
Discount rate	+ / - 1% pa	13	5	18
Inflation rate	+ / - 1% pa	14	5	19
Salaries increase	+ / - 1% pa	-	-	-
Staff turnover	+ / - 3% pa	19	13	32
Mortality	+ / - 10% pa	6	1	7

(in millions of Russian Roubles)

At 31 March 2016 the sensitivity analysis of the significant actuarial assumptions gives results similar to sensitivity analysis on 31 December 2015.

Note 18. Trade and other payables

	31 March 2016	31 December 2015
Trade payables	3,412	4,825
Other payables	6,217	10,062
Financial liabilities	**9,629**	**14,887**
Advances received	1,556	1,663
Other payables	1,554	1,199
Total	**12,739**	**17,749**
Non-current liabilities	4,796	4,801
Current liabilities	7,943	12,948
Total	**12,739**	**17,749**

Other payables as part of financial liabilities include accounts payable for acquisition of property, plant and equipment amounting to RR 1,817 million at 31 March 2016 (at 31 December 2015: RR 5,964 million).

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 30.

Note 19. Other taxes payable

	31 March 2016	31 December 2015
Property tax payable	538	490
Social contributions payable	400	366
VAT payable	2,876	209
Other taxes payable	72	5
Total	**3,886**	**1,070**

Note 20. Provisions

	2016	2015
Balance at 1 January	1,803	187
Provisions made during the period	20	-
Provisions reversed during the period	(11)	(54)
Balance at 31 March	**1,812**	**133**

As at 31 March 2016 the Group has made the provisions in the a mount of RR 1,812 million (at 31 December 2015: RR 1,803 million). The majority of this balance in the amount of RR 1,791 million was accrued in respect of the Tax authority claim as a result of tax audit. The Company evaluates the probability of the favourable outcome as low.

Note 21. Revenue

	Three months ended 31 March 2016	Three months ended 31 March 2015
Electricity	29,314	26,382
Heat	32,727	27,531
Other revenue	565	1,728
Total	**62,606**	**55,641**

Other revenue relates to rent, water usage and repair and maintenance services provided by the Group.

Approximately 2% and 2% of sales of electricity for the three months ended 31 March 2016 and 31 March 2015, respectively, relates to resale of purchased electricity on the wholesale market OREM.

(in millions of Russian Roubles)

Note 22. Cost of materials

	Three months ended 31 March 2016	Three months ended 31 March 2015
Fuel expenses	37,530	31,821
Purchased heat and electricity	2,837	2,368
Water usage expenses	351	283
Other materials expenses	255	186
Total	**40,973**	**34,658**

Electricity is purchased mainly on the wholesale electricity market.

Note 23. Other external supplies

	Three months ended 31 March 2016	Three months ended 31 March 2015
Electricity market administration fees	376	366
Security services	176	158
Grid connections	158	49
Transport services	131	99
Cleaning services	84	59
Agency fee	59	37
Communication services	24	26
Fire prevention services	7	7
Certification and testing	5	1
Other services	34	72
Total	**1,054**	**874**

Electricity market administration fees include payments to OJSC “Administrator torgovoi sistemy” and OJSC “Centr finansovyh raschetov” for arrangement of settlements between parties on electricity market and payments to OJSC “SO UES” for regulation of generating assets operation of the Group.

Note 24. Personnel expenses

	Three months ended 31 March 2016	Three months ended 31 March 2015
Wages and salaries	2,067	2,102
Social contributions	642	658
Voluntary medical insurance expenses	44	35
Catering	23	15
Personnel training expenses	11	12
Current service cost	4	4
Total	**2,791**	**2,826**

At 31 March 2016 the average number of employees of the Group was 9,549. At 31 March 2015 the average number of employees of the Group was 9,630.

(in millions of Russian Roubles)

Note 25. Other operating expenses

	Three months ended 31 March 2016	Three months ended 31 March 2015
Rent payments	474	432
Trade and other receivables impairment loss and derecognition	406	244
Legal, consulting and data processing services	64	114
Software expenses	60	56
Insurance expenses	56	54
Fines and penalties on business contracts: loss/(gain)	51	(130)
Environmental payments	16	12
Safety arrangement and precautions	15	12
Charge/(reversal) of provisions	9	(54)
Bank services	1	1
Cession agreements	-	94
Loss on disposal of materials	-	9
Other miscellaneous	74	32
Total	**1,226**	**876**

Note 26. Other operating income

	Three months ended 31 March 2016	Three months ended 31 March 2015
Gain from withdrawal from subsidiaries	101	-
Dividend income	90	-
Subsidies on the difference in tariffs for sales to the urban population	50	137
Gain from disposal of assets classified as held for sale	30	37
Gain from disposal of property,plant and equipment	5	(50)
Other miscellaneous	62	7
Total	**338**	**131**

Reimbursement from government of Moscow city represents cash paid to the Group to compensate the difference between tariffs set to the urban population and the tariffs of the Group.

Note 27. Financial income and expenses

	Three months ended 31 March 2016	Three months ended 31 March 2015
Financial income		
Foreign exchange gain	1,430	3,995
Interest income on bank deposits	174	309
Other interest income	443	90
Total	**2,047**	**4,394**
Financial expenses		
Foreign exchange loss	(785)	(2,977)
Interest expenses on borrowings	(826)	(835)
Lease expenses	(73)	(73)
Interest on employee benefit obligations	(12)	(8)
Other interest expenses	(1)	(2)
Total	**(1,697)**	**(3,895)**
Less finance costs capitalised on qualifying assets (Note 6)	248	849
Net financial expenses recognised in profit or loss	**(1,449)**	**(3,046)**

(in millions of Russian Roubles)

	Three months ended 31 March 2016	Three months ended 31 March 2015
Interest income	617	399
Interest expenses	(739)	(115)
Net interest	**(122)**	**284**

Net interest result by categories of assets and liabilities

	Three months ended 31 March 2016	Three months ended 31 March 2015
Investments held-to-maturity	4	36
Trade and other receivables	412	62
Cash and cash equivalents	200	301
Liabilities carried at amortised cost	(738)	(115)
Total	**(122)**	**284**

Note 28. Income tax

(a) Income tax

The applicable tax rate of the Group is the income tax rate of 20% (for the three months ended 31 March 2015: 20%).

	Three months ended 31 March 2016	Three months ended 31 March 2015
Current tax expense		
Current period	(124)	(252)
Over provided in prior periods	(12)	(3)
Deferred tax expense		
Origination and reversal of temporary differences	(1,962)	(1,543)
Unrecognised tax loss carry forwards	28	-
Income tax expense	**(2,070)**	**(1,798)**

Reconciliation of effective tax rate is as follows:

	Three months ended 31 March 2016	Three months ended 31 March 2015
Profit before income tax	10,278	9,228
Income tax at applicable tax rate	(2,056)	(1,845)
Non-deductible / non-taxable items	(2)	50
Over provided in prior periods	(12)	(3)
Income tax expense	**(2,070)**	**(1,798)**

(b) Tax effects of components of other comprehensive income

	Three months ended 31 March 2016			Three months ended 31 March 2015		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Remeasurement of post employee benefit obligation	15	(3)	12	4	(1)	3
Total	**15**	**(3)**	**12**	**4**	**(1)**	**3**

(c) Deferred income tax

Recognised deferred tax assets and liabilities are as follows:

(in millions of Russian Roubles)

	Assets		Liabilities		Net	
	31 March 2016	**31 March 2015**	**31 March 2016**	**31 March 2015**	**31 March 2016**	**31 March 2015**
Property, plant and equipment	-	-	(29,350)	(32,242)	(29,350)	(32,242)
Assets classified as held for sale	50	93	-	-	50	93
Investment property	33	-	-	(51)	33	(51)
Investments in associates	42	-	-	-	42	-
Trade and other receivables	-	-	(26)	(175)	(26)	(175)
Trade and other payables	810	639	-	-	810	639
Employee benefits	74	55	-	-	74	55
Unrecognised tax loss carry forwards for the period	196	153	-	-	196	153
Provisions	362	26	-	-	362	26
Borrowings	-	-	(110)	(138)	(110)	(138)
Other current and non-current assets	-	-	(1,764)	(1,152)	(1,764)	(1,152)
Other	23	20	-	-	23	20
Total	**1,590**	**986**	**(31,250)**	**(33,758)**	**(29,660)**	**(32,772)**

Movements in deferred income tax during the three months ended 31 March 2015 and 31 March 2016 are as follows:

	31 December 2014	**Recognised in income**	**Recognised in equity**	**Reclassification**	**31 March 2015**
Property plant and equipment	(32,513)	314	-	(43)	(32,242)
Assets classified as held for sale	127	(213)	-	179	93
Investment property	(46)	(5)	-	-	(51)
Trade and other receivables	876	(915)	-	(136)	(175)
Trade and other payables	957	(318)	-	-	639
Employee benefits	54	2	(1)	-	55
Unrecognised tax loss carry forwards for the period	153	-	-	-	153
Provisions	37	(11)	-	-	26
Borrowings	(144)	6	-	-	(138)
Other current and non-current assets	(748)	(404)	-	-	(1,152)
Other	19	1	-	-	20
Total	**(31,228)**	**(1,543)**	**(1)**	**-**	**(32,772)**

	31 December 2015	**Recognised in income**	**Recognised in equity**	**Reclassification**	**31 March 2016**
Property plant and equipment	(28,455)	(956)	-	61	(29,350)
Assets classified as held for sale	57	(7)	-	-	50
Investment property	(124)	157	-	-	33
Investments in associates	-	42	-	-	42
Trade and other receivables	1,166	(1,192)	-	-	(26)
Trade and other payables	853	(43)	-	-	810
Employee benefits	74	3	(3)	-	74
Unrecognised tax loss carry forwards for the period	168	28	-	-	196
Provisions	360	2	-	-	362
Borrowings	(116)	6	-	-	(110)
Other current and non-current assets	(1,728)	25	-	(61)	(1,764)
Other	22	1	-	-	23
Total	**(27,723)**	**(1,934)**	**(3)**	**-**	**(29,660)**

Note 29. Earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding, calculated as follows:

(in millions of Russian Roubles)

	Three months ended 31 March 2016	**Three months ended 31 March 2015**
Issued shares	39,749,360	39,749,360
Effect of own shares held	(140,229)	(140,229)
Weighted average number of ordinary shares (thousands)	**39,609,131**	**39,609,131**

The following is a reconciliation of the profit attributable to ordinary shareholders:

	Three months ended 31 March 2016	**Three months ended 31 March 2015**
Weighted average number of ordinary shares issued (thousands)	39,609,131	39,609,131
Profit for the period	8,208	7,430
Loss per ordinary share (basic and diluted) (in Russian Roubles)	**0.21**	**0.19**

There are no dilutive financial instruments as of 31 March 2015 and 31 December 2015.

(in millions of Russian Roubles)

Note 30. Financial instruments

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their fair value hierarchy:

31 March 2016

	Carrying amount					Fair value			
	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value									
Investment in associates (Note 9)	-	-	1,159	-	**1,159**	-	-	1,159	**1,159**
Available -for-sale financial assets (Note 10)	-	-	3,180	-	**3,180**	-	-	3,180	**3,180**
Total	**-**	**-**	**4,339**	**-**	**4,339**	**-**	**-**	**4,339**	**4,339**
Financial assets not measured at fair value									
Promissory notes (Note 10)	257	-	-	-	**257**	-	-	257	**257**
Deposits (Note 10)	624	-	-	-	**624**	-	624	-	**624**
Trade and other receivables (Note 11)	-	64,774	-	-	**64,774**	-	-	64,774	**64,774**
Cash and cash equivalents (Note 13)	-	13,346	-	-	**13,346**	-	13,346	-	**13,346**
Total	**881**	**78,120**	**-**	**-**	**79,001**	**-**	**13,970**	**65,031**	**79,001**
Financial liabilities not measured at fair value									
Unsecured bank loans (Note 16)	-	-	-	(47,350)	**(47,350)**	-	(47,350)	-	**(47,350)**
Other loans (Note 16)	-	-	-	(1,192)	**(1,192)**	-	-	(1,192)	**(1,192)**
Trade and other payables (Note 18)	-	-	-	(9,629)	**(9,629)**	-	-	(9,629)	**(9,629)**
Total	**-**	**-**	**-**	**(58,171)**	**(58,171)**	**-**	**(47,350)**	**(10,821)**	**(58,171)**

31 December 2015

	Carrying amount					Fair value			
	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value									
Investment in associates (Note 9)	-	-	3,978	-	**3,978**	-	-	3,978	**3,978**
Available -for-sale financial assets (Note 10)	-	-	3,180	-	**3,180**	-	-	3,180	**3,180**
Total	**-**	**-**	**7,158**	**-**	**7,158**	**-**	**-**	**7,158**	**7,158**
Financial assets not measured at fair value									
Promissory notes (Note 10)	285	-	-	-	**285**	-	-	285	**285**
Deposits (Note 10)	609	-	-	-	**609**	-	609	-	**609**
Trade and other receivables (Note 11)	-	60,200	-	-	**60,200**	-	-	60,200	**60,200**
equivalents (Note 13)	-	5,666	-	-	**5,666**	-	5,666	-	**5,666**
Total	**894**	**65,866**	**-**	**-**	**66,760**	**-**	**6,275**	**60,485**	**66,760**
Financial liabilities not measured at fair value									
Unsecured bank loans (Note 16)	-	-	-	(47,985)	**(47,985)**	-	(47,985)	-	**(47,985)**
Unsecured bond issues (Note 16)	-	-	-	(105)	**(105)**	(104)	-	-	**(104)**
Other loans (Note 16)	-	-	-	(880)	**(880)**	-	-	(880)	**(880)**
Trade and other payables (Note 18)	-	-	-	(14,887)	**(14,887)**	-	-	(14,887)	**(14,887)**
Total	**-**	**-**	**-**	**(63,857)**	**(63,857)**	**(104)**	**(47,985)**	**(15,767)**	**(63,856)**

(in millions of Russian Roubles)

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used. The fair values for financial instruments such as short-tem trade and other receivables, trade and other payables is not disclosed because their carrying amounts are a reasonable approximation of fair values.

	Valuation technique	Significant unobservable inputs
Financial assets measured at fair value		
Other investments	Discounted Cash Flows ("DCF")	EBITDA Risk-adjusted discount rate
Financial assets not measured at fair value		
Promissory notes	DCF	Not applicable
Financial liabilities not measured at fair value		
Other loans	DCF	Not applicable

There were no changes in valuation technique for Level 2 and Level 3 fair value measurements during the three months ended 31 March 2016 (for the year ended 31 December 2015: none). There were no transferes between levels during the three months ended 31 March 2016 (for the year ended 31 December 2015: none).

(b) Financial risk management

The group is exposed to a number of different financial risks arising from natural business exposures as well as its use of financial instruments including: market risks relating to foreign currency exchange rates and interest rates, credit risk and liquidity risk.

(i) Credit risk

Loans and receivables

The credit risk for loans and receivables based on the information provided to key management is as follows:

	Carrying amount	
	31 March 2016	**31 December 2015**
Trade and other receivables	53,006	48,242
Heat	29,730	28,305
Electricity	7,783	8,236
Other	15,493	11,701
Loans issued	11,768	11,958
Total	**64,774**	**60,200**

Debtors within two main classes of accounts receivable electricity and heat are quite homogenous regarding their credit quality and concentration of credit risk.

The account receivables of the Group are primarily comprised of a few, large, reputed customers who purchase electricity and heat. Historical data, including payment history during the recent credit crisis, would suggest that the risk of default from such

The most important customers of the Group represented by PJSC "MOEK" and OJSC "CFR" accounted for RR 28,322 million and RR 2,062 million, respectively, for the trade receivables carrying amount at 31 March 2016 (at 31 December 2015: RR 27,239 million and RR 2,026 million, respectively).

Impairment losses

The aging of loans and receivables at the reporting date was:

	31 March 2016		31 December 2015	
	Gross	**Impairment**	**Gross**	**Impairment**
Not past due	54,519	-	51,226	-
Past due 0-30 days	1,272	8	1,258	-
Past due 31-120 days	3,213	127	1,957	74
Past due 121-365 days	3,397	374	3,978	606
More than one year	10,417	7,535	9,613	7,152
Total	**72,818**	**8,044**	**68,032**	**7,832**

The movement in the allowance for impairment in respect of loans and receivables during the period was as follows:

	2016	**2015**
Balance at 1 January	7,832	6,830
Impairment loss recognised during the period	242	244
Allowance used and written off	(30)	(31)
Balance at 31 March	**8,044**	**7,043**

(in millions of Russian Roubles)

The impairment allowance at 31 March 2016 of RR 8,044 million (at 31 December 2015: RR 7,832 million) relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due by up to 120 days; 81.03 percent of the balance (at 31 December 2015: 80.03 percent), which includes the amount owed by the most significant customer of the Group (see above), relates to customers that have a good track record with the Group.

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

Cash in banks and call deposits

All bank balances and call deposits are neither past due nor impaired. Analysis by credit quality of bank balances and call deposits are as follows:

Name of the bank	Rating agency	Rating	31 March 2016	Rating	31 December 2015
PJSC "Bank VTB"	Рейтинговое агентство	BB+	5,725	BB+	700
OJSC "AB "Russia""	Moody's Interfax	A++	4,831	A++	799
PJSC "Gazprombank"	Эксперт РА	BB+	2,503	BB+	4,065
PJSC "Sberbank Russia"	Standard & Poor's	Ba2	286	Aa1.ru	4
PJSC "Alfa-Bank"	Standard & Poor's	BB	-	BB	56
PJSC "Credit Agricole Bank"	Standard & Poor's	AAA	-	AAA	41
Other			1		1
Total			**13,346**		**5,666**

The Group pursues the policy of cooperation with a number of the top Russian banks, which is approved by the Board of Directors.

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 March 2016 :

			Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans			47,350	54,047	2,572	2,566	23,211	19,500	6,198
Unsecured bond issues			-	-	-	-	-	-	-
Other loans			1,192	1,360	-	-	-	-	-
Trade and other payables			9,629	16,124	611	939	611	939	8,505
Total	**-**	**-**	**58,171**	**71,531**	**3,183**	**3,505**	**23,822**	**20,439**	**14,703**

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2015:

	Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	Over 5 yrs
Non-derivative financial liabilities							
Unsecured bank loans	47,985	55,387	2,622	2,616	23,684	20,013	6,452
Unsecured bond issues	105	110	110	-	-	-	-
Other loans	880	1,004	-	944	-	-	-
Trade and other payables	14,887	21,505	11,226	156	625	939	8,559
Total	**63,857**	**78,006**	**13,958**	**3,716**	**24,309**	**20,952**	**15,011**

All of the Group’s financial liabilities are carried at amortised cost.

(in millions of Russian Roubles)

(iii) Currency risk

Exposure to currency risk

	31 March 2016	31 December 2015
Deposits (Note 10)	624	609
Cash and cash equivalents	286	41
Unsecured bank loans (Note 16)	(15,600)	(16,235)
Gross balance sheet exposure	**(14,690)**	**(15,585)**
Interest payable	(500)	(435)
Gross exposure	**(500)**	**(435)**
Net exposure	**(15,190)**	**(16,020)**

The following exchange rates applied during the period:

	Average rate		Reporting date spot rate	
	31 March 2016	**31 December 2015**	**31 March 2016**	**31 December 2015**
EURO	82.3373	67.7767	76.5386	79.6972

Sensitivity analysis

A 21% strengthening of the RR against EUR at 31 March 2016 would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 31 December 2015.

	31 March 2016	31 December 2015
EURO	3,263	5,347

A 21% weakening of the RR against the EUR at 31 March 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

The actual increase in the average exchange rates for the three months ended 31 March 2016 was approximately 21% for the EURO (at 31 December 2015: 33%), the difference between the two actual extremes in the reported period was approximately 21% (at 31 December 2015: 53%).

(iv) Interest rate risk

Profile

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

	Carrying amount	
	31 March 2016	**31 December 2015**
Fixed rate instruments		
Financial assets (Note 9,10,11,13)	83,340	73,918
Financial liabilities (Note 16,18)	(42,571)	(47,622)
Total	**40,769**	**26,296**
Variable rate instruments		
Financial liabilities (Note 16)	(15,600)	(16,235)
Total	**(15,600)**	**(16,235)**

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. The analysis is performed on the same basis for 31 March 2016 and 31 March 2015.

	31 March 2016		31 March 2015	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Variable rate instruments	43.0	(43.0)	(45.0)	45.0
Cash flow sensitivity (net)	**43.0**	**(43.0)**	**(45.0)**	**45.0**

(in millions of Russian Roubles)

Note 31. Leases

(a) Operating leases

Operating leases refer mainly to long-term rental agreements for land rent where generation facilities of the Group are located. The leases typically run for periods from 5 to 45 years with an option to renew the lease. During the three months ended 31 March 2016 operating lease expenses in amounts of RR 474 million were recognised in the consolidated interim statement of comprehensive income (during for three months ended 31 March 2015: RR 432 million) (Note 25).

Non-cancellable operating lease rentals are payable as follows:

	31 March 2016	31 December 2015
Less than one year	740	751
Between one and five years	3,004	3,035
More than five years	19,275	19,512
Total	**23,019**	**23,298**

(b) Finance leases

Finance lease rentals are payable as follows (Note 6):

	31 March 2016			31 December 2015		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	312	291	21	313	292	21
Between one and five years	1,251	1,142	109	1,251	1,147	104
More than five years	8,559	5,192	3,367	8,716	5,333	3,383
Total	**10,122**	**6,625**	**3,497**	**10,280**	**6,772**	**3,508**

Note 32. Commitments and contingencies

(a) Capital commitments

At 31 March 2016 the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RR 5,590 million (at 31 December 2015: RR 14,956 million). The amount includes Capacity Supply Contracts capital commitments for amount RR 178 million (at 31 December 2015: RR 3,829 million).

(b) Taxation environment

The Russian tax legislation is subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

Management believes that as at 31 March 2016 its interpretation of the relevant legislation was appropriate and the Group's tax position would be sustained.

The transfer pricing rules that became effective from 1 January 2012 appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlledtransactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

(in millions of Russian Roubles)

(c) Environmental liabilities

Environmental regulations are currently in the process of development in the Russian Federation. Group evaluates on a regular basis its obligations due to new and amended legislation. As liabilities in respect of environmental obligations can be measured, they are immediately recognised in profit or loss. Currently the likelihood and amount of potential environmental liabilities cannot be estimated reliably but could be material. However, management believes that under existing legislation there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

(d) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not generally available. Management believes that the Group has adequate property damage coverage for its main production assets. The Group does not have full coverage for business interruption and third party liability. Until the Group obtains adequate insurance coverage, there is a risk that the loss from business interruption and third party liability could have a material adverse effect on the Group's operations and financial position.

(e) Guarantees

The Group has issued direct guarantees to third parties which require the Group to make contingent payments based on the occurrence of certain events consisting primarily of guarantees for mortgages of Group employees amounting to RR 14 million at 31 March 2016 (at 31 December 2015: RR 35 million).

Note 33. Operating segments

The chief operating decision-maker has been identified as the Board of Directors and Managing Director. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. The Group has determined the operating segments based on these reports to be individual power generating units.

The decision-maker assesses the operating performance of these individual power generating units based on its revenue and directly attributable costs. Interest income and expenditure are treated as central costs of the Group. Other information provided to the decision-maker is measured in a manner consistent with that in the financial statements.

The operating segments are aggregated into two primary reporting segments; electricity and heat. Despite of the fact that there are modernised and unmodernised power generating units amongst operating segments which show significantly different gross margins, this aggregation is premised on the identical nature of their products, production process, the class of customers, the methods used to distribute their products and the nature of the regulatory environment. This aggregation results from the similar economic characteristics, over the long run, of these two distinct outputs.

Other services and products sold by the Group mainly include rent services, feed water sales and maintenance services. These are not included within the reportable operating segments. The results of these operations are included in the "all other segments" column.

Taxes balances and available-for-sale financial assets are not considered to be segment assets but rather are managed by the central function. These are part of the reconciliation to total consolidated statement of financial position assets.

(a) Segment information

The segment information for three months ended 31 March 2016 and at 31 March 2016 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue	**21**	**29,314**	**32,727**	**565**	**62,606**
Expenses:					
Fuel and water usage expenses	22	(37,555)	(326)	-	(37,881)
Heat transmission		-	(2,104)	-	(2,104)
Purchased electricity	22	(2,683)	67	-	(2,616)
Purchased heat	22	-	(221)	-	(221)
Segment result		**(10,924)**	**30,143**	**565**	**19,784**
Segment assets		**243,235**	**31,847**	**58,303**	**333,385**

The segment information for the three months ended 31 March 2015 and at 31 December 2015 is as follows:

(in millions of Russian Roubles)

	Note	Electricity	Heat	All other segments	Total
Revenue	**21**	**26,382**	**27,531**	**1,728**	**55,641**
Expenses:					
Fuel and water usage expenses	22	(31,841)	(263)	-	(32,104)
Heat transmission		-	(3,171)	-	(3,171)
Purchased electricity	22	(2,206)	(36)	-	(2,242)
Purchased heat	22	-	(126)	-	(126)
Segment result		**(7,665)**	**23,935**	**1,728**	**17,998**
Segment assets		**246,001**	**24,908**	**55,577**	**326,486**

The segment assets include impairment loss recognised for property, plant and equipment for three months ended 31 March 2016 in total amount RR 0 million (at 31 December 2015: RR 13,590 million to the electricity segment, RR 1,967 million to the heat segment and RR 324 million to all other segments).

A reconciliation of adjusted gross margin to profit before tax is provided as follows:

	Note	Three months ended 31 March 2016	Three months ended 31 March 2015
Segment result for reportable segments		19,219	16,270
Other segments gross margin		565	1,728
Financial income	27	2,047	4,394
Share of loss of investments accounted for using the equity method	9	(135)	-
Other operating income	26	338	131
Depreciation of property, plant and equipment		(3,683)	(4,454)
Personnel expenses		(2,791)	(2,826)
Other external supplies	23	(1,054)	(874)
Maintenance and repairs expenses		(770)	(597)
Taxes other than income tax		(528)	(436)
Cost of materials	22	(255)	(186)
Financial expenses	27	(1,449)	(3,046)
Other operating expenses	25	(1,226)	(876)
(Loss)/profit before income tax		**10,278**	**9,228**

(b) Reportable segments' assets

Reportable segments' assets are reconciled to total assets as follows:

	Note	31 March 2016	31 December 2015
Segment assets		333,385	326,486
Unallocated:			
Available for sale financial assets	10	3,180	3,180
Income tax receivables		667	668
Taxes other than income tax prepaid	11	67	73
Total assets per consolidated statement of financial position		**337,299**	**330,407**

(c) Information about major customers

During the three months ended 31 March 2016 there were certain customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

• Revenue from OJSC "ZFR" was amounted to RR 17,326 million during for the three months ended 31 March 2016. The revenue was obtained from sales of electricity and capacity relating to the electricity segment.

• Revenue from PJSC "MOEK" was amounted to RR 25,505 million during for three months ended 31 March 2016. The revenue was obtained from sales of heat relating to the heat segment.

• Revenue from PJSC "Mosenergosbit" was amounted to RR 4,306 million during for three months ended 31 March 2016. The revenue was obtained from sales of of electricity and capacity relating to the electricity segment.

During the three months ended 31 March 2015 there were certain customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

• Revenue from OJSC “ZFR” was amounted to RR 15,254 million during for the three months ended 31 March 2015. The revenue was obtained from sales of electricity and capacity relating to the electricity segment.

• Revenue from PJSC “MOEK” was amounted to RR 17,212 million during for three months ended 31 March 2015. The revenue was obtained from sales of heat relating to the heat segment.

• Revenue from PJSC “Mosenergosbit” was amounted to RR 4,893 million during for three months ended 31 March 2015. The revenue was obtained from sales of of electricity and capacity relating to the electricity segment.

(in millions of Russian Roubles)

Note 34. Subsidiaries

(a) Scope of consolidation

PJSC "Mosenergo" and its following subsidiaries form the Mosenergo Group:

	Percentage of ownership	
	31 March 2016	31 December 2015
LLC "Centralny remontno-mekhanicheskiy zavod"	100.0%	100.0%
LLC "TSK Novaya Moskva"	100.0%	100.0%

(b) Principal subsidiaries

	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares held by Mosenergo Group (%)	Proportion of ordinary shares held by non-controlling
LLC "Centralny remontno-mekhanicheskiy zavod"	Russia	Repair and reconstruction services	100.0%	100.0%	-
LLC "TSK Novaya Moskva"	Russia	Heat and water supplier	100.0%	100.0%	-

No preference shares held by the Group.

The following table summarised financial information about each subsidiary that has material non-controlling interest before any intra-group eliminations: