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**Auditor's Report
on the Consolidated Financial Statements**

Interregional Distribution Grid Company of North-West, Public Joint Stock
Company and its subsidiaries
for the year ended 31 December 2015

April 2016



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01.04.2016 N 064-2051

THIS IS THE TRANSLATION OF THE ORIGINAL DOCUMENT PREPARED IN RUSSIAN

**Auditor's Report
On the 2015 Consolidated Financial Statements**

To: the Shareholders of PJSC "IDGC of North-West"

Audited entity:

Interregional Distribution Grid Company of North-West, Public Joint Stock Company (abbreviated name - **PJSC "IDGC of North-West"**);

Location: Constitution Square, building 3 "A", Saint Petersburg, 196247, the Russian Federation;

Primary state registration number – 1047855175785.

Auditor:

RSM RUS Ltd.

Location: 4, Pudovkina Str., Moscow, 119285;

Tel.: (495) 363-28-48; Fax: (495) 981-41-21;

Primary state registration number – 1027700257540;

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

We have audited the accompanying consolidated financial statements of PJSC "IDGC of North-West", which comprise consolidated statement of financial position as at 31 December 2015, consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity for the year ended 31 December 2015, notes to the consolidated financial statements.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the fairness of these consolidated financial statements.

Opinion

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

Management Board Chairwoman

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

ORNZ – 29605011647

Audit Manager

Audit Certificate No. 05-000025. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 30 November 2011 No. 25. Permanent award.

ORNZ – 21005002934



N.A. Dantser

A.A. Kosova



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

(in thousand of Russian roubles, except share and per share data)

	Notes	For the year ended 31 December	
		2015	2014
Revenue	6	42,370,024	46,935,058
Government grants	7	5,962	141,313
Operating expenses		(40,478,762)	(47,593,270)
Profit/(loss) from operating activities		1,897,224	(516,899)
Other non-operating expenses, net		948,163	912,497
Finance costs, net	9	(1,765,348)	(2,896,719)
Profit/(loss) before income tax		1,080,039	(2,501,121)
Income tax (expense)/benefit	10	(265,153)	284,339
Profit/(loss) for the year		814,886	(2,216,782)
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of available-for-sale financial assets		(820)	(2,093)
Income tax on items that are or may be reclassified subsequently to profit or loss		164	2,907
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		<i>(656)</i>	<i>814</i>
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of the defined benefit liability		(138,639)	41,458
Income tax on items that will never be reclassified to profit or loss		27,728	(8,292)
<i>Total items that will never be reclassified to profit or loss</i>		<i>(110,911)</i>	<i>33,166</i>
Other comprehensive (loss)/income for the year, net of income tax		(111,567)	33,980

The accompanying notes on pages 12 to 61 are an integral part of these consolidated financial statements.



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

(in thousand of Russian roubles, except share and per share data)




	Notes	For the year ended 31 December	
		2015	2014
Total comprehensive income/(loss) for the year		703,319	(2,182,802)
Profit/(loss) attributable to:			
Equity holders of the Group		814,855	(2,216,818)
Non-controlling interests		31	36
Profit/(loss) for the year		814,886	(2,216,782)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Group		703,288	(2,182,838)
Non-controlling interests		31	36
Total comprehensive income/(loss) for the year		703,319	(2,182,802)
Earnings per share			
Basic and diluted earnings/(loss) per share (in Russian roubles)		0,0073	(0,0228)
Weighted average number of shares in issue	9	95,785,923,138	95,785,923,138

General Director

Director for economy and finances

Chief Accountant

30 March 2016

A.V. Letyagin

P.V. Shiryayev

I.G. Zhdanova

The accompanying notes on pages 12 to 61 are an integral part of these consolidated financial statements.

**ROSSETI**Interregional
Distribution
Grid Company
of the North-West

Consolidated Statement of Financial Position as at 31 December 2015

(in thousand of Russian roubles)

	Notes	31 December 2015	31 December 2014
Assets			
Non-current assets			
Property, plant and equipment	11	35,473,865	35,276,341
Intangible assets	12	160,018	222,583
Deferred tax assets	10	8,395	21,073
Investments and other financial assets	13	566,733	575,050
Other non-current assets	14	634,740	590,621
Total non-current assets		36,843,751	36,685,668
Current assets			
Accounts receivable and prepayments	15	15,500,036	14,654,917
Income tax receivable		32,055	11,969
Inventories	16	925,497	790,435
Current financial assets	17	–	1,147,559
Other current assets		528,340	569,009
Cash and cash equivalents	18	71,247	1,038,530
Total current assets		17,057,175	18,212,419
Total assets		53,900,926	54,898,087

The accompanying notes on pages 12 to 61 are an integral part of these consolidated financial statements.

**ROSSETI**Interregional
Distribution
Grid Company
of the North-West

Consolidated Statement of Financial Position as at 31 December 2015

(in thousand of Russian roubles)

	Notes	31 December 2015	31 December 2014
Equity and liabilities			
Capital and reserves			
Share capital		9,578,592	9,578,592
Retained earnings/(Accumulated deficit)		313,499	(501,356)
Common control combination reserve		10,457,284	10,457,284
Other reserves		212,632	324,199
Equity attributable to the equity holders of the company		20,562,007	19,858,719
Non – controlling interests		355	324
Total equity		20,562,362	19,859,043
Non-current liabilities			
Long-term loans and borrowings	20	9,940,611	14,913,056
Post-employment benefit obligations	21	1,790,107	1,620,525
Deferred tax liabilities	10	1,881,690	1,811,376
Other non-current liabilities	22	1,134,620	546,594
Total non-current liabilities		14,747,028	18,891,551
Current liabilities			
Accounts payable and advances received	23	11,498,367	11,078,740
Income tax payable		78,008	90,884
Current taxes payable		1,104,520	886,795
Current loans and borrowings	20	5,204,165	3,539,310
Current provisions	24	706,476	551,764
Total current liabilities		18,591,536	16,147,493
Total liabilities		33,338,564	35,039,044
Total equity and liabilities		53,900,926	54,898,087

General Director

Director for economy and finances

Chief Accountant

30 March 2016

A.V. Letyagin

P.V. Shiryaev

I.G. Zhdanova

The accompanying notes on pages 12 to 61 are an integral part of these consolidated financial statements.



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

(in thousand of Russian roubles)

	Attributable to equity holders of the Company					Total equity
	Share capital	(Accumulated deficit)/Retained earnings	Common control combination reserve	Other reserves	Total	
Balance at 1 January 2014	9,578,592	1,792,091	10,457,284	290,219	22,118,186	288
Total comprehensive loss						
Loss for the year	-	(2,216,818)	-	-	(2,216,818)	36
Other comprehensive loss	-	-	-	33,980	33,980	-
Total comprehensive loss for the year	-	(2,216,818)	-	33,980	(2,182,838)	36
Transactions with owners						
Dividends to equity holders (Note 19)	-	(76,629)	-	-	(76,629)	-
Balance at 31 December 2014	9,578,592	(501,356)	10,457,284	324,199	19,858,719	324
Balance at 01 January 2015	9,578,592	(501,356)	10,457,284	324,199	19,858,719	324
Total comprehensive income						
Profit for the year	-	814,855	-	-	814,855	31
Other comprehensive income	-	-	-	(111,567)	(111,567)	-
Total comprehensive income for the year	-	814,855	-	(111,567)	703,288	31
Transactions with owners						
Dividends to equity holders (Note 19)	-	-	-	-	-	-
Balance at 31 December 2015	9,578,592	313,499	10,457,284	212,632	20,562,007	355

The accompanying notes on pages 12 to 61 are an integral part of these consolidated financial statements.

**ROSSETI**Interregional
Distribution
Grid Company
of the North-West

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

(in thousand of Russian roubles)

	Year ended 31 December	
	2015	2014
Cash flows from operating activities		
Profit/(loss) for the year	814,886	(2,216,782)
<i>Adjustments for:</i>		
Income tax (benefit)/expense	265,153	(284,339)
Finance costs, net	1,765,348	2,896,719
Depreciation and amortisation	4,001,297	4,092,156
Impairment of property, plant and equipment	–	1,911,855
Loss from disposal of PPE	8,866	13,875
Impairment of account receivables	616,327	984,780
(Reversal of provision)/provision for inventory obsolescence	(1,084)	2,058
Other non-cash items	151,704	60,680
	7,622,497	7,461,002
<i>Working capital changes</i>		
Accounts receivable and prepayments	(994,929)	(3,412,060)
Inventories	(133,977)	29,458
Other current assets	40,670	(51,764)
Accounts payable, advances received and provisions	1,304,236	3,097,132
Cash from operations before income taxes and interest paid	7,838,497	7,123,768
Interest paid	(1,841,083)	(1,337,260)
Income tax paid	(199,289)	144,041
Contributions to defined benefit plan	(210,324)	(109,509)
Net cash from operating activities	5,587,801	5,821,040

The accompanying notes on pages 12 to 61 are an integral part of these consolidated financial statements.

**ROSSETI**Interregional
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of the North-West

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

(in thousand of Russian roubles)

	Year ended 31 December	
	2015	2014
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment and intangible assets	3,958	48,705
Purchase of property, plant and equipment, intangible assets and other non-current assets	(4,484,591)	(4,378,020)
Interest received	356,380	62,214
Dividend income received	250	185
Disposal proceeds of financial investments and repayment of deposit	3,000,000	–
Deposits placed	(2,084,600)	(3,000,000)
Net cash used in investing activities	(3,208,603)	(7,266,916)
Cash flows from financing activities		
Proceeds from loans and borrowings	10,585,734	8,532,700
Repayments of loans and borrowings	(13,932,214)	(6,812,700)
Dividends paid	–	(75,553)
Net cash from financing activities	(3,346,480)	1,644,447
Net (decrease)/increase in cash and cash equivalents	(967,282)	198,571
Cash and cash equivalents at the 1 January	1,038,530	839,959
Cash and cash equivalents at the 31 December	71,247	1,038,530

The accompanying notes on pages 12 to 61 are an integral part of these consolidated financial statements.



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



1. THE GROUP AND ITS OPERATIONS

Background

Public Joint Stock Company (until July, 3 2015 - Joint-Stock Company) Interregional Distribution Grid Company of North-West (herein “IDGC North-West” or the “Company”) was established in December 2004 in accordance with the laws of the Russian Federation. The Company was formed during the process of re-organization of OJSC RAO “UES of Russia” (“RAO UES”) as the owner and operator of the electric power transmission and distribution grid in the North-West Region of Russia.

The registered office of the Company is Sobornaya str. 31, Gatchina, Leningrad region, 188300, Russian Federation. The Company’s main offices are at Constitution Square, building 3 “A”, Saint Petersburg, 196247, Russian Federation.

Formation of the Group

On 27 April 2007 the Board of Directors of RAO UES approved the structure of the Interregional Distribution Grid Companies. Under the approved structure, the IDGC North-West was incorporated with seven branches, located in the Arkhangelsk, Vologda, Syktyvkar, Novgorod, Pskov, Petrozavodsk, Murmansk and subsidiaries (the “Group”). The principal subsidiaries are listed in Note 4.

The branches were formed on the basis of seven Regional Distribution Grid Companies: OJSC “Arkhenenergo”, OJSC “Vologdaenergo”, OJSC “AEK Komienergo”, OJSC “Novgorodenergo”, OJSC “Pskovenergo”, OJSC “Kareleenergo”, OJSC “Kolenergo”, all of which were subsidiaries of RAO UES prior to the formation of the Group. The merger was a business combination among entities under common control, and has been accounted for using the predecessor accounting method (see Note 2).

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred its 55.38% of the Company’s shares to OJSC “Holding IDGC”, a state-controlled entity. On 4 April 2013 in accordance with decision of General stockholders meeting dated 23 March 2013 OJSC “Holding IDGC” has been renamed to OJSC “Russian Grids” to comply with decree of President of the Russian Federation dated 22 November 2012 No. 1567 “About open joint stock company “Russian Grids”. On July 17 2015 Joint Stock Company Russian Grids was made a new trade name with alterations regarding organizational and legal form - Rosseti, Public Joint Stock Company (PJSC ROSSETI).

Relations with the state and current regulations

The Group’s business is a natural monopoly influenced by the Russian government. The government of the Russian Federation directly affects the Group’s operations through state tariffs.

In accordance with legislation of Russian Federation, the Group’s tariffs are controlled by Regional Energy Commissions. Federal Antimonopoly Service of the Russian Federation puts through control of establishment of a tariffs.

The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the Group could raise capital required to maintain and expand current capacity.

As at 22 February 2013 the Ministry of Energy of the Russian Federation assigned the Company with the status of guaranteeing electric power supplier in-charge of the service area of OJSC “Kolskaya Energy Retail Company” effective from 1 March 2013. As at 22 March 2013 the Ministry of Energy of the Russian Federation assigned the Company with the same status in respect of the service area of OJSC “Novgorodoblenergosbyt” effective from 1 April 2013. As at 25 September 2013 the Ministry of Energy of the Russian Federation assigned the Company with the same status in respect of the



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service area of OJSC “Novgorodoblelectro” effective from 1 October 2013.

The status of guaranteeing electric power supplier in-charge in all cases was assigned till assigning of guaranteeing supplier status to the winner of the tender in respect of specified service areas, but not more than for the period of 12 months. The Group established separate units within its Kolenergo and Novgorodenergo branches for the purpose of electricity sales activities. The assigning of guaranteeing electric power supplier in-charge status did not entail change in assets, liabilities and equity of the Group at the date of status assignment.

From 1 January 2014 guaranteeing electric power supplier in-charge function in Novgorod Region of the service area of OJSC “Novgorodoblenergosbyt” was assigned to another company according to Order of the Ministry of Energy of the Russian Federation as at 23 December 2013 No. 912.

As at 1 October 2014 guaranteeing electric power supplier in-charge in Novgorod region of the service area of OJSC “Novgorodoblelectro” was assigned to another company by Ministry of Order № 638 issued on as at 24 September 2014.

On 1 February 2015 guaranteeing electric power supplier in-charge function in Murmansk region of the service area of OJSC “Kolenergosbyt” was assigned to OJSC “AtomEnergoSbyt” by Ministry of Energy Order № 14 issued on 23 January 2015, the sales of electricity in the Murmansk region has been discontinued within the boundaries zone of OJSC “Kolenergosbyt”.

Russian business environment

The Group’s operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display some characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment impact may differ from management’s assessment.

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

These financial statements are prepared based on the statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of ending balances, results of operations and cash flows in accordance with International Financial Reporting Standards (IFRS).

The consolidated IFRS financial statements are prepared on the historical cost basis except for investments available-for-sale that are stated at fair value; property, plant and equipment was revalued as at 1 January 2007 by an independent appraiser to determine deemed cost as part of the first-time adoption of IFRSs.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in Roubles has been rounded to the nearest thousand,



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except when otherwise indicated.

Predecessor accounting

In 2008 the Group accounted for the merger with entities controlled by RAO UES as business combination among entities under common control using the predecessor accounting method. Accordingly, assets and liabilities of the contributed entities were combined from the earliest period presented and accounted for at their carrying values, as determined by RAO UES in its IFRS consolidated financial statements.

The difference between the consideration paid and the predecessor carrying values of the net assets relating to the merger of the entities under common control is recorded in equity as a common control combination reserve.

Use of estimates

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

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

In particular, information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following Notes:

Note 10, 26 – income tax;

Note 11 – useful lives of property, plant and equipment, impairment of non-financial assets;

Note 15 – impairment of trade and other receivables;

Note 21 – post-employment obligations;

Note 24 – provisions for vacation and bonuses and for litigation and claims.

In management's view there are no assumptions or estimation uncertainties that may have a significant risk of resulting in a material adjustment within the next reporting year.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements consist of the financial statements of the Company and entities controlled by the Group (its subsidiaries).

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- ▶ Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- ▶ Exposure, or rights, to variable returns from its involvement with the investee;



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- ▶ The ability to use its power over the investee to affect its returns.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, income, expenses, unrealized profits and losses relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in net assets of consolidated subsidiaries are identified separately from the Group's equity. Non-controlling interests are determined as their proportionate share of the acquiree's identifiable net assets. Total comprehensive income is attributable to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Foreign currencies

In preparing financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each end of reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences are recognised in profit or loss, except for differences related to available-for-sale financial assets which are recognised in other comprehensive income.

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- ▶ expected to be realised or intended to be sold or consumed in normal operating cycle;
- ▶ held primarily for the purpose of trading;
- ▶ expected to be realised within twelve months after the reporting period; or
- ▶ cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- ▶ it is expected to be settled in normal operating cycle;
- ▶ it is held primarily for the purpose of trading;
- ▶ it is due to be settled within twelve months after the reporting period; or
- ▶ there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.



Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ in the principal market for the asset or liability, or
- ▶ in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Property, plant and equipment

Owned assets

Items of property, plant and equipment, except for land, are measured at historical cost (or deemed cost) less accumulated depreciation and impairment loss. Land is measured at cost less accumulated impairment loss.

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

Items of property, plant and equipment transferred from customers are measured at fair value on initial recognition.

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.

An item of property, plant and equipment and any significant part initially recognised is derecognised



upon disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised on a net basis in other non-operating income and expense in the consolidated statement of profit or loss and other comprehensive income.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised, with the carrying amount of the component replaced being written off. Other subsequent expenditure is capitalised if a future economic benefit will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the consolidated statement of profit or loss and other comprehensive income as an expense as incurred.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired under finance lease is initially recognised at an amount equal to the lower of its fair value and the present value of the minimum lease payment at inception of the lease.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy for similar assets.

The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation commences on the date when an asset is ready for its intended use. Land is not depreciated.

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

Buildings and structures	7-50 years;
Power transmission equipment	7-33 years;
Power conversion equipment	5-29 years.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.



Intangible assets

All of the Group's intangible assets have finite useful lives and are capitalised on the basis of the costs incurred to acquire and prepare them for their intended use.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized, and expenditure is reflected in the statement of profit and loss in the year in which it was incurred.

Intangible assets are amortised using the straight-line method from the date they are ready for use over their useful lives, for the current and comparative periods, as follows:

Software	3-15 years;
Licenses and certificates	3-5 years.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) 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 assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the consolidated statement of profit or loss and other comprehensive income. Gains are not recognised in excess of any cumulative impairment loss.

Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and accounts receivable, held-to-maturity and available-for-sale. Management determines the classification of its financial assets at initial recognition.

The Group classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss, loans and borrowings, accounts payable.

As at and for the years ended 31 December 2015 and 2014, the Group had no derivatives designated as hedging instruments in an effective hedge, or financial assets and liabilities classified by the Group at fair value through profit or loss.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

Initial recognition

The Group initially recognises loans and receivables, deposits, debt securities issued and subordinated liabilities on the date that they are originated/issued. All other financial assets are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument. All financial assets other than financial assets at fair value through profit or loss are recognized initially at



fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

When the Group has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Group has a legally vested right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(ii) Non-derivative financial assets – measurement

Loans and receivables

Loans and receivables are a category of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 15 and cash and cash equivalents as presented in Note 18.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and cash deposits and highly liquid investments with original maturities of three months or less, those are readily convertible to known amount of cash and are subject to an insignificant risk of change in value. 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.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless



management intends to dispose of the investment within 12 months of the end of reporting period. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss previously recognised in equity is included in profit and loss. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of profit or loss and other comprehensive income when the Group's right to receive the dividends is established. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost. Available-for-sale financial assets comprise equity securities as presented in Note 13.

(iii) Non-derivative financial liabilities – measurement

Financial liabilities are classified initially as loans and borrowings, trade and other accounts payable. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Share capital

Ordinary shares

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

Impairment of non-derivative financial assets

A financial asset not carried at fair value through profit or loss, including investment in an equity accounted investee, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include:

- ▶ default or delinquency by a debtor,
- ▶ restructuring of an amount due to the Group on terms that the Group would not consider otherwise,
- ▶ indications that a debtor or issuer will enter bankruptcy,
- ▶ adverse changes in the payment status of borrowers or issuers in the Group;
- ▶ economic conditions that correlate with defaults;
- ▶ the disappearance of an active market for a security; or
- ▶ observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both a specific asset and collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.



In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale investment securities are recognised by reclassifying the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in the statement of profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Impairment of non-financial assets

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

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.



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

The entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is calculated on the weighted average basis or using the specific identification method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Spare parts

Spare parts and servicing equipment are carried as inventory and recognized in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Dividends

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

Post-employment benefit obligations

Long-term employee benefits provided by the Group include defined contribution plans, defined benefit plans and other long-term employee benefits.

Defined contribution plans

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

Defined benefit post-employment plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and



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that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

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

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

Other long-term employee benefits

Other long-term defined benefit plans provided by the Group are regulated by Collective Agreements and include: benefits in connection with the jubilee dates of employees' birthdays, one-time benefits paid in case of death and financial support to workers. The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefits are discounted to determine its present value, and the fair value of any related assets is deducted.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is stated net of value added tax (VAT).

Rendering of services

Revenue from transmitting electricity is recognised over the period the service was rendered based on the actual amount provided, determined based on measurements of a supply meters, and tariffs as set be regional regulatory bodies.

Revenue for the technological connection to the power network is recognised at the moment of actual connection of the customer to the network.

Revenue from sale of electricity is recognised over the period the service was rendered based on the actual amount provided, determined based on measurements of a supply meters.



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Dividends and interest income

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as a part of the cost of those assets, until such time as the assets are ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss using the effective interest method in the period in which they are incurred.

Income Tax

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises on the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.



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Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held by the Group. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the chief operating decision body – the Management Board of the Company to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Management Board of the Company include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

New and amended standards and interpretations

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.



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Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments issued in 2011 introduce the criteria that the entity should have legally enforceable right to set-off and have an intention to offset or realise assets and settle liabilities simultaneously. These amendments have no impact on the Group.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments issued in June 2013 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods. This amendment would be considered in any future novation.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-financial Assets

The amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, the amendments require recoverable amount disclosures for assets or cash-generating units, for which an impairment loss was recognized or reversed during the reporting period. The Group assessed the effect of the amendments to IAS 36 in the current period and concluded that they had no impact on the Group since the assessment of the recoverable amounts related to cash-generating units CGU of the Group was based on value in use according to IAS 36.

IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 Income Taxes) and fines or other penalties for breaches of legislation. IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This interpretation has no impact on the Group.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.



New Standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instrument

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted.

Annual improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

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



IFRS 7 Financial Instruments: Disclosures

Servicing contracts

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

Applicability of the amendments to IFRS 7 to condensed interim financial statements

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

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments are not expected to have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

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

- ▶ the materiality requirements in IAS 1;
- ▶ that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- ▶ that entities have flexibility as to the order in which they present the notes to financial statements;
- ▶ that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

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

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception



The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

4. GROUP SUBSIDIARIES

The Group's consolidated financial statements include the following subsidiaries that are incorporated in Russian Federation:

Subsidiary	Principal activity	Ownership as at	Ownership as at
		31 December 2015, %	31 December 2014, %
Pskovenergosbyt	Sale of electricity	100	100
Pskovenergoagent	Collection services	100	100
Energoservice North-West	Electricity metering services	100	100
Lesnaya skazka	Recreation	98	98

5. OPERATING SEGMENTS

The Management Board of the Company has been determined as the Group chief operating decision maker ("CODM").

The Group's primary activity is the provision of electricity transmission services and connection services within regions of the Russian Federation. From 2013 the Group started to perform guaranteeing electric power supplier functions (see Note 1).

The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation (branches of IDGC North-West) and segments relating to other activities (represented by separate legal entities).

The Management Board regularly evaluates and analyses financial information of the segments reported in the statutory financial statements of respective segment entities on at least a quarterly basis.

In accordance with the requirements of IFRS 8 based on the information on segment revenue, profit before income tax and total assets reported to Management Board, the following reportable segments were identified:

- ▶ Transmission Segments – Arkhenergo, Vologdaenergo, Karelenergo, Kolenergo, Komienegero, Novgorodenergo and Pskovenergo;
- ▶ Energy Retail Segments – Kolenergo, Novgorodenergo; Pskovenergosbyt;
- ▶ Other Segments – other Group companies.

Segment items are based on financial information reported in statutory accounts and can differ



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Interregional
Distribution
Grid Company
of the North-West



significantly from those used in the consolidated financial statements prepared under IFRSs.

The major differences relate to:

- ▶ difference in the measurement of property, plant and equipment;
- ▶ recognition of employee benefits obligations; and
- ▶ difference in accounting for deferred tax.

Reconciliation of items measured as reported to the Management Board with similar items in these consolidated financial statements include those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Information regarding the results of each reportable segment is included below. Performance is primarily measured based on segment revenues and profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Revenues and segment profit are used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments between each other and relative to other entities that operate within those industries.



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Segment results for the year ended 31 December 2015 are presented below:

	Transmission					Energy Retail				Total			
	Arkh- energo	Vologda- energo	Karel- energo	Kol- energo	Komi- energo	Novgorod- energo	Pskov- energo	Kol- energo	Novgorod- energo		Pskov- energobyt	Other	Unallocated
Revenues													
Power transmitting	4,772,820	6,711,685	6,762,750	5,034,823	6,672,420	3,485,825	244,140	-	-	-	-	-	33,684,463
Technological connection to power network	137,723	41,479	91,793	101,894	202,153	30,921	198,195	-	-	-	-	-	804,158
Sale of electricity	-	-	-	-	-	-	-	946,026	-	5,969,141	-	-	6,915,167
Other revenue	310,915	360,806	135,586	29,946	59,020	27,884	32,783	-	-	1,736	7,560	-	966,236
Intersegment revenue	-	-	45	-	-	-	3,230,977	-	-	445,056	258,721	-	3,934,799
Total revenues	5,221,458	7,113,970	6,990,174	5,166,663	6,933,593	3,544,630	3,706,096	946,026	-	6,415,933	266,281	-	46,304,823
Profit/(loss) before income tax	201,558	711,964	122,843	(53,665)	(39,625)	(264,489)	92,628	108,883	-	14,638	12	-	894,749
Depreciation	(467,190)	(1,081,938)	(452,651)	(300,103)	(873,357)	(566,058)	(423,834)	-	-	(542)	(2,906)	(10,729)	(4,179,308)
Finance income	25,243	34,235	27,431	30,800	31,472	23,460	23,851	41	-	125	2,072	-	198,730
Finance costs	(370,821)	(329,609)	(240,827)	(263,336)	(156,318)	(253,587)	(185,542)	-	-	(15,951)	(5,459)	-	(1,821,452)
Income tax expense	(33,769)	(49,141)	(23,356)	(17,967)	(48,470)	(30,061)	(33,318)	-	-	(2,708)	(1,781)	-	(240,571)
Total assets	8,211,800	12,178,972	6,184,735	5,135,442	12,882,246	6,446,538	5,279,870	1,696,902	4,209	753,412	81,212	1,586,239	60,441,576
<i>Including property, plant and equipment</i>	4,012,397	9,182,351	3,652,029	3,466,367	10,430,827	5,477,203	4,565,182	-	-	171	13,330	45,760	40,845,618
Total liabilities	952,285	1,433,260	1,207,813	1,117,337	4,531,009	647,026	567,173	-	-	710,488	149,800	21,544,538	32,860,731
Capital expenditures	509,011	917,401	246,858	406,060	1,515,095	118,942	389,788	-	-	-	3,086	13,556	4,119,797



Segment results for the year ended 31 December 2014 are presented below:

	Transmission					Energy Retail					Total		
	Arkh- energo	Vologda- energo	Karel- energo	Kol- energo	Komi- energo	Novgorod- energo	Pskov- energo	Kol- energo	Novgorod- energo	Pskov- energosbyt		Other	Unallocated
Revenues													
Power transmitting	4,784,297	6,288,738	3,899,633	3,571,534	6,628,317	3,131,373	213,826	-	-	-	-	-	28,517,718
Technological connection to power network	263,684	20,288	35,845	23,994	381,264	79,795	76,710	-	-	-	-	-	881,580
Sale of electricity	-	-	-	-	-	-	-	8,324,092	2,692,574	5,531,917	-	-	16,548,583
Other revenue	460,930	176,991	8,551	31,214	217,765	37,258	47,135	-	-	-	7,333	-	987,177
Intersegment revenue	-	-	5	-	-	-	2,865,826	-	-	425,252	244,754	-	3,535,837
Total revenues	5,508,911	6,486,017	3,944,034	3,626,742	7,227,346	3,248,426	3,203,497	8,324,092	2,692,574	5,957,169	252,087	-	50,470,895
Profit/(loss) before income tax	532,067	(348,434)	(18,043)	(912,511)	321,443	(410,229)	(350,362)	718,146	(61,221)	8,178	(15,083)	-	(536,049)
Depreciation	(434,371)	(1,024,922)	(423,869)	(313,615)	(778,614)	(565,530)	(402,116)	-	-	(439)	(2,980)	(12,458)	(3,958,914)
Finance income	27,948	47,071	30,846	42,093	41,877	24,917	22,679	493	392	244	448	-	239,008
Finance costs	(287,636)	(209,888)	(185,565)	(204,507)	(132,405)	(192,282)	(133,813)	(37,017)	(11,425)	(8,112)	(5,459)	-	(1,408,109)
Income tax expense	(10,766)	(19,589)	(9,021)	(6,361)	(18,110)	(12,668)	(13,214)	(1,233)	-	(4,083)	752	-	(94,293)
Total assets	7,434,989	13,022,659	5,611,073	6,517,369	11,759,122	6,115,079	5,310,469	960,896	556,710	648,909	78,423	3,617,058	61,632,756
<i>Including property, plant and equipment</i>	3,984,373	9,349,454	3,860,043	3,353,248	9,801,293	5,929,093	4,601,935	5,069	-	546	12,992	40,706	40,938,752
Total liabilities	868,591	1,227,137	447,951	910,825	2,888,162	79,211	528,564	693,426	604,298	616,891	144,629	25,692,571	34,702,256
Capital expenditures	873,700	1,025,634	370,454	504,737	1,510,569	522,205	438,049	-	-	527	4,066	7,853	5,257,794



The reconciliations of key segment items measured as reported to the Management Board with similar items in these consolidated financial statements are presented in the tables below.

Reconciliation of revenues is presented below:

	Year ended 31 December	
	2015	2014
Segment revenues	46,304,823	50,470,895
Intersegment revenue elimination	(3,934,799)	(3,535,837)
Revenues per consolidated statement of profit or loss and other comprehensive income	42,370,024	46,935,058

Reconciliation of profit before income tax is presented below:

	Year ended 31 December	
	2015	2014
Segment results –profit/(loss) before income tax	894,749	(536,049)
Adjustment for depreciation of property, plant and equipment	283,409	(43,710)
Adjustments for finance costs	15,933	26,968
Intergroup dividends	1,693	–
Employee benefits	–	(26,332)
Impairment of property, plant and equipment	–	(1,911,855)
Other adjustments	(112,359)	(10,143)
Profit/(loss) before income tax per consolidated statement of profit or loss and other comprehensive income	1,080,039	(2,501,121)

Reconciliation of depreciation and amortization is presented below:

	Year ended 31 December	
	2015	2014
Segment depreciation	(4,179,308)	(3,958,914)
Adjustment for depreciation and impairment of property, plant and equipment	283,409	(43,710)
Amortization of intangible assets	(4,259)	(89,532)
Reclassification from other expenses	(101,139)	–
Depreciation, amortization per consolidated statement of profit or loss and other comprehensive income	(4,001,297)	(4,092,156)

Reconciliation of financial costs is presented below:

	Year ended 31 December	
	2015	2014
Segment finance income	198,730	239,008
Segment finance costs	(1,821,452)	(1,408,109)
Effect of discounting of accounts receivable	15,933	(35,742)
Effect of adjustment for post-employment obligations	(136,190)	(88,293)
Provision for impairment of investments	–	(1,665,078)
Amounts included in cost of qualifying assets	–	62,710
Other finance costs reclassification	(22,369)	(1,215)
Finance costs, net per consolidated statement of profit or loss and other comprehensive income	(1,765,348)	(2,896,719)



Reconciliation of income tax expense is presented below:

	Year ended 31 December	
	2015	2014
Segment income tax expense	(240,571)	(94,293)
Adjustment due to different accounting principles for deferred tax calculation	(24,582)	378,632
Income tax (expense)/benefit per consolidated statement of profit or loss and other comprehensive income	(265,153)	284,339

Reconciliation of total assets is presented below:

	31 December 2015	31 December 2014
Total segment assets	60,441,576	61,632,756
Recognition of assets related to post-employment benefits	475,524	517,520
Adjustment for differences in deemed cost and depreciation rates	(5,371,753)	(3,744,223)
Adjustment due to different accounting principles for deferred tax calculation	(899,909)	(830,595)
Intersegment balances	(495,258)	(495,043)
Adjustment for inventories valuation and write offs	(223,489)	(202,922)
Investments in subsidiaries	(36,220)	(36,219)
Discounting of accounts receivable	(29,101)	(45,033)
Impairment of property, plant and equipment	–	(1,911,855)
Other adjustments	39,556	13,701
Total assets per consolidated statement of financial position	53,900,926	54,898,087

Reconciliation of property, plant and equipment is presented below:

	31 December 2015	31 December 2014
Segment property, plant and equipment	40,845,618	40,938,752
Adjustment for differences in deemed cost and depreciation rates, borrowing cost capitalized	(5,371,753)	(3,744,223)
Impairment of property, plant and equipment	–	(1,911,855)
Advances for acquisition of property, plant and equipment	–	(1,512)
Other adjustments	–	(4,821)
Property, plant and equipment per consolidated statement of financial position	35,473,865	35,276,341

Reconciliation of total liabilities is presented below:

	31 December 2015	31 December 2014
Total segment liabilities	32,860,731	34,702,256
Post-employment benefit obligations	1,790,107	1,620,525
Adjustment due to different accounting principles for deferred tax	(865,301)	(798,687)
Intersegment balances	(495,258)	(495,043)
Other adjustments	48,285	9,993
Total liabilities per consolidated statement of financial position	33,338,564	35,039,044



Information on revenues for separate types of services and products of the Group is presented in Note 6.

The Group operates in the Russian Federation. Significant customers of the Group are entities controlled by the Government of the Russian Federation. The amounts of revenues from such entities are disclosed in Note 25. Revenues from companies under government control are reported by all segments of the Group.

For the years ended 31 December 2015 and 2014 the Group had two major customers – electricity distribution selling companies in two regions of the Russian Federation – with individual turnover over 10% of total Group revenue. Revenue from such customers is reported by transmission segments operating in the regions where these distribution companies are located: Arkhangelsk Region and Komi (2014: Arkhangelsk Region, Komi). The total amounts of revenue for these major customers for the year ended 31 December 2015 were 3,826,377 (Arkhangelsk Region) and 3,457,024 (Komi) (for the year ended 31 December 2014: 3,996,138 (Arkhangelsk Region) and 3,364,215 (Komi)). Trade receivables from major customers as at 31 December 2015 amounted to 3,146,314 (Arkhangelsk Region) and 723,193 (Komi) (as at 31 December 2014: 2,489,594 (Arkhangelsk Region) and 693,778 (Komi)).

6. REVENUE

	Year ended 31 December	
	2015	2014
Power transmitting	33,684,463	28,517,718
Sale of electricity	6,917,323	16,548,583
Technological connection to power network	804,158	881,580
Other revenue	964,080	987,177
Total revenue	42,370,024	46,935,058

7. OPERATING EXPENSES

	Year ended 31 December	
	2015	2014
Power transmitting services	12,177,903	12,484,061
Salaries and other personnel expenses (Note 8)	10,391,337	9,752,048
Electricity purchased for resale	3,435,630	8,970,315
Depreciation and amortization of non-current assets	4,001,297	4,092,156
Electricity purchased to cover losses	4,223,017	3,951,377
Impairment of property, plant and equipment	–	1,911,855
Raw materials used	1,893,047	1,742,539
Network and equipment repair services	698,277	765,100
Taxes other than income tax	418,449	348,370
Energy resources for own needs	222,275	277,255
Telecommunication and information services	217,500	230,940
Impairment of trade and other receivables	616,327	984,780
Other operating expenses	2,183,703	2,082,474
Total operating expenses	40,478,762	47,593,270



8. SALARIES AND OTHER PERSONNEL EXPENSES

Salaries and other personnel expenses for the year ended 31 December 2015 and 2014 were:

	Year ended 31 December	
	2015	2014
Wages, salaries	7,066,579	6,693,668
Defined contribution plan	2,103,542	1,935,567
Unused vacation provision	1,165,307	1,091,575
Defined benefit plan (Note 21)	55,909	31,238
Total	10,391,337	9,752,048

9. FINANCE COSTS, NET

Finance costs, net for the year ended 31 December 2015 and 2014 were:

	Year ended 31 December	
	2015	2014
Interest expense on loans	1,885,073	1,441,270
Discounting of long-term accounts receivable	2,348	51,993
Provision for impairment of investments (Note 17)	21,719	1,665,078
Interest expense on post-employment obligations (Note 21)	168,976	119,862
Less: amounts included in the cost of qualifying assets	(69,080)	(101,330)
Total finance costs	2,009,036	3,176,873
Interest income	(192,399)	(232,148)
Unwinding of discount	(18,280)	(16,251)
Other finance income	(33,009)	(31,755)
Total finance income	(243,688)	(280,154)
Total finance costs, net	1,765,348	2,896,719

The annual capitalization rate for general purpose borrowings for the year ended 31 December 2015 was 10.84% (2014: 7.84%).

10. INCOME TAX

Income tax recognised in profit or loss for the year ended 31 December 2015 and 2014 was:

	Year ended 31 December	
	2015	2014
Current income tax	265,436	90,168
Adjustment for prior years	(111,158)	(44,669)
Fines	(11)	(99)
Deferred income tax	110,886	(329,739)
Total income tax expense/(benefit)	265,153	(284,339)



Profit before income tax for the year is reconciled to income tax expense as follows:

	Year ended 31 December	
	2015	2014
Profit/(loss) before income tax	1,080,039	(2,501,121)
Income tax at statutory tax rate	216,008	(500,224)
Adjustments due to:		
Change in a manner of recoverability of deferred tax asset	13,720	226,552
Non-deductible expenses	146,594	34,101
Fines	(11)	(99)
Adjustments in respect of current income tax of previous year	(111,158)	(44,669)
Income tax expense/(gain) at effective tax rate of 23% (2014: 11%)	265,153	(284,339)

The statutory tax rate effective in the Russian Federation was 20% in 2015 and in 2014.

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The statutory tax rate of 20% was applied in the calculation of deferred tax assets and liabilities as at 31 December 2015 and 2014. The tax effect of the movements in these temporary differences is detailed below:

	31 December 2015	Recognized in profit or loss	Recognized in other comprehensive income	1 January 2015
Post-employment benefit obligations	119,389	(3,755)	27,728	95,416
Other current liabilities and accrued expenses	140,021	27,689	–	112,332
Other assets/ liabilities	374,272	25,939	164	348,168
Accounts payable and advances received	909	582	–	327
Deferred tax assets	634,591	50,455	27,892	556,244
Netting	(626,196)	(91,025)	–	(535,171)
Net deferred tax assets	8,395	(40,570)	27,892	21,073
Property, plant and equipment	(2,001,274)	(51,153)	–	(1,950,121)
Accounts receivable	(506,612)	(110,187)	–	(396,425)
Deferred tax liabilities	(2,507,886)	(161,340)	–	(2,346,547)
Netting	626,196	91,025	–	535,171
Net deferred tax liabilities	(1,881,690)	(70,315)	–	(1,811,376)



	31 December 2014	Recognized in profit or loss	Recognized in other comprehensive income	1 January 2014
Post-employment benefit obligations	95,416	(121,891)	(8,292)	225,599
Other current liabilities and accrued expenses	112,332	(58,471)	–	170,803
Other assets/ liabilities	348,169	338,818	2,908	6,443
Tax loss carry-forwards	–	(274,039)	–	274,039
Accounts payable and advances received	327	180	–	147
Deferred tax assets	556,244	(115,403)	(5,384)	677,031
Netting	(535,171)	120,972	–	(656,143)
Net deferred tax assets	21,073	5,569	(5,384)	20,888
Property, plant and equipment	(1,950,121)	366,930	–	(2,317,051)
Accounts receivable	(396,426)	78,212	–	(474,638)
Deferred tax liabilities	(2,346,547)	445,142	–	(2,791,689)
Netting	535,171	(120,972)	–	656,143
Net deferred tax liabilities	(1,811,376)	324,170	–	(2,135,546)

As at 31 December 2015 the Group has not recognised deferred tax assets in respect of tax loss carry-forwards. As at 31 December 2015 there was no tax loss carried forward (31 December 2014: no). The tax losses can be utilized 10 years after their origination.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductible, management of the Group believes it is probable that taxable profit will be available against which the deductible temporary difference will be utilized.



11. PROPERTY, PLANT AND EQUIPMENT

	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
<i>Cost or Deemed cost</i>						
Opening balance as at 1 January 2015	6,657,620	28,447,271	15,049,786	6,417,804	2,490,356	59,062,837
Additions and transfers	(3,245)	7,178	(6,785)	8,033	4,512,182	4,517,363
Putting into operation	359,197	1,918,407	1,136,825	679,911	(4,094,340)	-
Disposals and transfers	(4,411)	(11,409)	(9,891)	(11,979)	(420,090)	(457,780)
Closing balance as at 31 December 2015	7,009,161	30,361,447	16,169,935	7,093,769	2,488,108	63,122,420
<i>Depreciation and impairment</i>						
Opening balance as at 1 January 2015	(2,125,284)	(12,552,345)	(5,390,507)	(3,481,107)	(237,253)	(23,786,496)
Charge for the year	(266,730)	(2,431,624)	(605,582)	(591,526)	-	(3,895,462)
Impairment carry forward of losses	(16,495)	(30,635)	(46,325)	(6,106)	99,561	-
Disposals	697	8,979	7,666	15,527	534	33,403
Closing balance as at 31 December 2015	(2,407,812)	(15,005,625)	(6,034,748)	(4,063,212)	(137,158)	(27,648,555)
Net book value as at 1 January 2015	4,532,336	15,894,926	9,659,279	2,936,697	2,253,103	35,276,341
Net book value as at 31 December 2015	4,601,349	15,355,822	10,135,187	3,030,557	2,350,950	35,473,865

	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
<i>Cost or Deemed cost</i>						
Opening balance as at 1 January 2014	5,852,279	26,157,905	13,641,066	5,984,540	2,205,440	53,841,230
Additions and transfers	811,132	2,296,994	1,421,976	482,062	5,348,743	10,360,907
Disposals and transfers	(5,791)	(7,628)	(13,256)	(48,798)	(5,063,827)	(5,139,300)
Closing balance as at 31 December 2014	6,657,620	28,447,271	15,049,786	6,417,804	2,490,356	59,062,837
<i>Depreciation and impairment</i>						
Opening balance as at 1 January 2014	(1,630,338)	(9,675,319)	(3,988,622)	(2,631,521)	-	(17,925,800)
Charge for the year	(299,944)	(2,038,156)	(930,929)	(733,595)	-	(4,002,624)
Impairment	(199,128)	(842,474)	(479,389)	(153,611)	(237,253)	(1,911,855)
Disposals	4,126	3,604	8,433	37,620	-	53,783
Closing balance as at 31 December 2014	(2,125,284)	(12,552,345)	(5,390,507)	(3,481,107)	(237,253)	(23,786,496)
Net book value as at 1 January 2014	4,221,941	16,482,586	9,652,444	3,353,019	2,205,440	35,915,430
Net book value as at 31 December 2014	4,532,336	15,894,926	9,659,279	2,936,697	2,253,103	35,276,341



Borrowing cost included in cost of qualifying assets for the year ended 31 December 2015 amounted to 69,080 (2014: 101,330).

As at 31 December 2015 prepayments for the acquisition of property, plant and equipment, net of VAT included in the assets under construction amounted to 93,907 (as at 31 December 2014: 19,350 net of VAT).

In connection with identified impairment indicators, the Group performed impairment testing in respect of property, plant and equipment for special cash-generating units as at 31 December 2015.

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

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

Each cash-generating unit is determined by the Group based on the geographical location of the Company's branches and subsidiaries which is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other groups of assets.

The following key assumptions were used in determining the recoverable amounts of the assets of cash-generating units:

- ▶ cash flows were projected based on methodical instruction on testing power grid assets for impairment (approved by the order of JSC "Rosseti" dated 15 December 2015 no. 583p) and forecast data for a period:
 - until 2020 – for cash-generating units «Arhenergo», «Kolenergo», «Komienergo»;
 - until 2022 – for cash-generating units «Vologdaenergo», «Novgorodenergo»;
 - until 2025 – for cash-generating units «Karelenergo», «Pskovenergo».
- ▶ the forecast cash flows have been identified for the period 2016-2020 (for cash-generating units «Arhenergo», «Kolenergo», «Komienergo»), 2016-2022 (for cash-generating units «Vologdaenergo», «Novgorodenergo»), 2016-2025 (for cash-generating units «Karelenergo», «Pskovenergo») based on the best estimate of the Group's management in respect of the electricity transmission volumes, operating expenses and capital expenditure, and tariffs approved by regulatory authorities for 2016. A longer forecast period for «Vologdaenergo», «Novgorodenergo», «Karelenergo» and «Pskovenergo» was chosen as the stable cash flows would not be achieved by the end of 2020. For these branches, the chosen forecast period from the date of impairment testing till the end of 5 years period following the latest year of the current approved tariff regulation period or other number of years when the use of other period is more appropriate for the impairment testing purpose.
- ▶ forecasted tariffs on electricity transmission services for the forecast period were estimated based on business plans, approved by the Board of directors of IDGC North-West, minute no. 194/9 dated 24 December 2015, which were based on tariff models using average year increase of rate on electricity transmission services (in accordance with forecast on social and economic development for 2016 and planning period of 2017-2018);
- ▶ tariff growth rate in 2019-2025 are limited by forecast inflation growth rate of MED (until 2030);
- ▶ forecasted electricity transmission volumes were determined on the basis of the Company's annual business plans for 2016-2020;



- ▶ the cash flows forecasts were discounted to their present value using a nominal average cost of capital in the amount of 11.31%;
- ▶ the growth rate of the net cash flows in the post-forecast period amounted to:
 - 2.6% for cash-generating units «Arhenergo», «Kolenergo», «Komienergo»;
 - 2.4% for cash-generating units «Vologdaenergo», «Novgorodenergo»;
 - 2.2% for cash-generating units «Karelenergo», «Pskovenergo».

As at 31 December 2015 as a result of impairment testing the Group there were no any impairment losses identified for the reporting period.

As a result of testing as at 31 December 2014 the impairment loss had been recognized in the amount of 1,911,855 (including 1,316,784 for “Vologdaenergo” and 595,071 for “Novgorodenergo”).

12. INTANGIBLE ASSETS

	Software	Licenses and certificates	Total
<i>Cost</i>			
Opening balance as at 1 January 2015	273,054	60,458	333,512
Additions	46,661	16,191	62,852
Disposals	(63,276)	(26,139)	(89,415)
Closing balance as at 31 December 2015	256,439	50,510	306,949
<i>Amortization</i>			
Opening balance as at 1 January 2015	(103,087)	(7,842)	(110,929)
Charge for the year	(81,703)	(24,178)	(105,881)
Disposals	60,255	9,624	69,879
Closing balance as at 31 December 2015	(124,535)	(22,396)	(146,931)
Net book value as at 1 January 2015	169,967	52,616	222,583
Net book value as at 31 December 2015	131,904	28,114	160,018

	Software	Licenses and certificates	Total
<i>Cost</i>			
Opening balance as at 1 January 2014	168,326	36,511	204,837
Additions	142,214	32,355	174,569
Disposals	(38,260)	(7,633)	(45,893)
Closing balance as at 31 December 2014	272,280	61,233	333,513
<i>Amortization</i>			
Opening balance as at 1 January 2014	(53,974)	(8,654)	(62,628)
Charge for the year	(84,100)	(5,432)	(89,532)
Disposals	35,080	6,150	41,230
Closing balance as at 31 December 2014	(102,994)	(7,936)	(110,930)
Net book value as at 1 January 2014	114,352	27,857	142,209
Net book value as at 31 December 2014	169,286	53,297	222,583



13. INVESTMENTS AND OTHER FINANCIAL ASSETS

Investments in securities and other financial assets as at 31 December 2015 and 2014 were:

	31 December 2015	31 December 2014
Available-for-sale investments, at fair value		
Equity securities	6,785	8,331
Loans and receivables, at amortized cost		
Restructured trade receivables from principal activities	107,799	168,290
Deposits (Note 17)	393,899	356,514
Long-term promissory notes	–	6,612
Other non-current receivables	58,250	35,303
Total	566,733	575,050

Equity securities represent investments in shares of OJSC TGC-1 and other securities, which are listed on MICEX and RTS, recorded at fair value.

The restructured trade receivables from core operations for electricity supply for prior periods, which were past-due and in respect of which the agreement to settle such receivables during several years was reached prior to 2014. All non-current receivables are denominated in roubles.

14. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2015 and 2014 were:

	31 December 2015	31 December 2014
Assets related to long-term post-employment benefits	475,524	517,519
VAT on non-current prepayments from customers	157,625	67,558
Other	1,591	5,544
Total	634,740	590,621

Assets related to post-employment benefits represent balances on collective and individual accounts in Non-State Pension Fund of the Electric Power Industry (see Note 21). Those assets are not owned by the fund since under current contractual agreement with fund the Group can utilize contributions either by reducing future contributions, financing other plans or transferring assets to another fund at its own discretion.

The movement in the balance of assets related to the post-employment benefits for 2015 and 2014 were as follows:

	31 December 2015	31 December 2014
as at 1 January 2015	517,519	545,501
Income on plan's assets	32,787	31,569
Contributions	59,142	51,984
Other movements in accounts	8,128	6,150
Payments of benefits	(142,052)	(117,685)
As at 31 December 2015	475,524	517,519



15. ACCOUNTS RECEIVABLE AND PREPAYMENTS

Accounts receivable and prepayments as at 31 December 2015 and 2014 were:

	31 December 2015	31 December 2014
Trade receivables	15,858,137	15,650,901
Other receivables	945,328	887,299
Less: allowance for doubtful debts	(1,590,522)	(2,159,812)
Subtotal financial assets	15,212,943	14,378,388
Prepayments	287,094	276,529
Total	15,500,036	14,654,917

All accounts receivable are denominated in roubles and relate to sales to enterprises located in Russian Federation. Accounts receivable include amounts due from related parties (Note 25).

All impaired receivables have been provided for. Management has determined an allowance for doubtful debtors based on specific customer identification, current court practice, customer payment discipline, subsequent receipts, and settlements and the analysis of expected future cash flows. Management believes that Group entities will be able to realize the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value approximates their fair value.

The Group's trade receivables as at 31 December 2015 include 2,200,443 related to litigations with electricity sales companies (31 December 2014: 1,235,317). During 2015 some of the litigations that existed as at 31 December 2014 were won by the Group, some were lost by the Group while others remained unresolved. Additionally the Group entered into a number of new similar litigations. The main reasons for the litigation are disagreements over the amount of power consumed, application of tariffs for electricity transmission and provision of power and delays in customers' payments.

Certain trade receivables and other accounts receivable have been restructured and are due to be realized more than one year from the end of reporting period (Note 13).

The ageing of receivables at the reporting date was:

	Gross 31 December 2015	Impairment 31 December 2015	Gross 31 December 2014	Impairment 31 December 2014
Not past due	3,677,445	–	4,334,526	–
Past due less than 3 months	3,668,195	–	5,195,573	–
Past due more than 3 months and less than 6 months	1,885,763	–	1,941,962	(74,892)
Past due more than 6 months and less than 1 year	4,162,984	(1,302)	1,784,841	(94,120)
Past due more than 1 year	3,409,078	(1,589,220)	3,281,298	(1,990,800)
	16,803,465	(1,590,522)	16,538,200	(2,159,812)

Based upon historic default rates, management believes that, apart from the above, no impairment allowance is necessary in respect of receivables.



Movement in the impairment allowance in respect of trade and other receivables:

	Year ended 31 December	
	2015	2014
Balance at the beginning of the year	(2,159,811)	(1,933,499)
Accrued	(901,327)	(1,977,602)
Released	299,828	992,822
Amounts written-off against provision as uncollectable receivables	1,170,788	758,467
Balance at the end of the year	(1,590,522)	(2,159,812)

Recognition of the allowance for impaired receivables was included in other operating expenses. The allowance account in respect of trade receivables is used to record impairment loss when the recovery of the amount due is impossible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

16. INVENTORIES

Inventories, measured at cost, as at 31 December 2015 and were as follows:

	31 December 2015	31 December 2014
Spare parts and consumables for repairs	441,779	352,505
Emergency stock	172,639	153,909
Fuel and oils	127,706	116,481
Working clothes and fittings	112,102	97,664
Other inventories	80,282	79,971
Less: allowance for obsolete and slow-moving inventories	(9,011)	(10,095)
Total	925,497	790,435

As of 31 December 2015 there are no inventories pledged to secure bank loans and borrowings (Note 20) (31 December 2014: no).

17. LONG-TERM INVESTMENTS

As at 31 December 2015 the long-term investments represent deposits placed in OJSC "Bank Tavrichesky" ("The Bank") in amounts 2,080,000 thousands roubles at the rate of 0.51% per annum with maturity 12 April 2035. (at 31 December 2014: 3,000,000 thousands roubles, these amounts of deposits repaid 13 April 2015; at 31 December 2013 these deposits didn't exist).

At the end of 2014 the Bank faced serious financial difficulties and stopped customer service. At February of 2015 the Bank was taken under temporary administration of GK Deposit Insurance Agency ("ASV"). At March of 2015 in order to protect the interests of depositors and other creditors of the Bank, ASV carried out the selection of investor which suggested the most favorable funding of the action plan to prevent the Bank from going into bankruptcy. As a result of the tender procedure, OJSC AKB International Finance Club ("Investor") was selected as the investor for the Bank.

A feature of this project of reorganization is the participation of major creditors of the Bank: PJSC "Lenenergo" and PJSC "IDGC of North-West", providing co-funding of actions reorganization. In view of the aforesaid ASV allocated 28 billion roubles at the expense at the bank of Russia with maturity of 10 years to facilitate the Bank financial restructuring. In accordance with the plan of restructuring of the bank's obligations to JSC "IDGC of North-West" the full amount of the deposit (including accrued interest for the use of the deposit) was back on the company's account in April of



2015. At the same time for the purposes of financial rehabilitation the amount of 2,080,000 thousands roubles have been placed to the Bank on a 20 years subordinated deposit with an interest payable on a quarterly basis at a rate of 0.51% per annum. In addition, before July 2022 there is a plan to reorganize the Bank in the form of its merger with the Investor.

Currently, ASV exercises the complete control over the process of financial recovery of the Bank based on the general agreement between the Investor, the Bank, PJSC "Lenenergo" and PJSC "IDGC of North-West", this agreement contemplating the provision of comprehensive information on the Bank's financial position.

The Bank actively utilizes the funds of the Bank of Russia, thus facilitating the improvement of its financial performance indicators and guaranteeing the Bank's ability to meet its liabilities to creditors.

The analysis of the Bank's financial operations and prior year statistical data indicate at the stabilization of the Bank's the financial position and the mitigation of the negative trends that might impact the Bank's financial stability in future. Currently, the Bank operates on a routine basis, providing a full range of services to the customers, including settlements and payments on a timely basis.

As at 31 December 2015 the financial investments (subordinated deposit) with undetermined current market value are measured at their fair value. The fair value of the Group's debt financial investment is defined as the amount of economic benefits that the Group expects to receive from these financial investments under normal operating conditions.

In the consolidated financial statements the Group made an allowance for impairment of financial investments (the Bank deposit) equalling the difference between their historical cost and fair value. The fair value of financial investments was determined using the method of discounting of long-term debt taking into consideration industry, market, financial and other risks, including investment risk. As at 31 December 2015, the allowance amounted to 1,686,101 thousand roubles (at 31 December 2014: 1,665,078 thousand roubles).

The Group formed the deferred tax asset from provision for impairment loss of financial investments in accordance with IAS 12 Income Taxes. As at 31 December 2015 value of this deferred tax asset amounted to 337,220 thousand roubles (as at 31 December 2014: 333,016 thousand roubles).

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2015 and 2014 were as follows:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Current accounts denominated in roubles	60,586	981,388
Specific bank accounts	6,040	9,332
Other cash and cash equivalents	4,621	47,810
Total	<u>71,247</u>	<u>1,038,530</u>

The Group has accounts in several Russian banks, including PJSC "Sberbank Rossii", Bank GPB (SC), Bank VTB (PJSC), Alfa-Bank (OJSC), SC "AB Rossiya". Management believes that they all are reliable counterparties with a stable position on the Russian market and no impairment allowance is necessary.



19. EQUITY

Authorised, issued and fully paid share capital

As at 31 December 2015 authorised and issued share capital comprised 95,785,923,138 ordinary shares (31 December 2014: 95,785,923,138 ordinary shares) of which all ordinary shares were issued and fully paid. All shares have a par value of RUB 0.1.

Common control combination reserve

The Group was formed in 2008 as a result of the combination of a number of businesses under common control. The carrying value of the net assets of the businesses contributed were determined based on as amounts recorded in the IFRS financial statements of the predecessor, rather than the fair values of those net assets. The difference between the value of the share capital issued and the IFRS carrying values of the contributed net assets and non-controlling interests was recorded as a common control combination reserve within equity.

Retained earnings and dividends

The Company's statutory financial statements form the basis for the distribution of profit and other appropriations. Due to differences between statutory accounting principles and IFRS, the Company's profit in the statutory accounts can differ significantly from that reported in the consolidated financial statements prepared under IFRS.

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles, that as at 31 December 2015 was 644,016 (31 December 2014: (620 027)).

In 2015, dividends for the year ended 31 December 2014 have not been declared. In 2014 dividends for the year ended 31 December 2013 were declared in the amount of 0.008 roubles per ordinary share. The total amount of dividends accrued in 2014 for the year ended 31 December 2013 was 76,629.

Dividends for the year ended 31 December 2015 have not been declared by the date of this report.

Voting rights of shareholders

The holders of fully paid ordinary shares are entitled to one vote per share at the Company's annual and general shareholders' meetings.

Earnings per share

Earnings per share were calculated using the weighted average number of ordinary shares. The Company has no dilutive potential ordinary shares; accordingly, diluted earnings per share are equal to basic earnings per share (in 2015 earnings per share was 0.0073 RUB, in 2014 loss per share was 0.0228 RUB).



20. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings measured at amortised cost.

	<u>31 December 2015</u>	<u>31 December 2014</u>
<i>Non-current liabilities</i>		
Unsecured bank loans	9,940,611	14,913,056
	<u>9,940,611</u>	<u>14,913,056</u>
<i>Current liabilities</i>		
Current portion of unsecured bank loans	5,103,846	3,539,310
Unsecured bank loans	100,319	-
	<u>5,204,165</u>	<u>3,539,310</u>

Loans are attracted at market interest rates. Annual interest rates are equivalent to effective interest rates.

The effective interest rate is the market rate for loan agreements including additional agreements in force at the balance-sheet date and for fixed rate loans, representing a current market rate for floating rate loans. The Group has no hedging arrangements to manage interest rate exposure.

The Group has no floating rate loans.

Information about the Group's exposure to interest rate and foreign currency risk is presented in Note 29.

All loans and borrowings are denominated in Russian roubles.

As at 31 December 2015 and 31 December 2014 there are no inventories pledged to secure bank loans and borrowings.



Terms and conditions of outstanding loans were as follows:

Bank loan	Currency	Year of maturity	31 December 2015		31 December 2014		31 December 2015		31 December 2014	
			Effective interest rate	Effective interest rate	Effective interest rate	Nominal amount	Carrying amount	Nominal amount	Nominal amount	
Unsecured bank loans										
Unsecured bank loans*	RUB	2015	-	7.01%-7.98%	-	-	-	3,135,651	3,135,651	3,135,651
Unsecured bank loans	RUB	2015	-	8.45%	-	-	-	403,659	403,659	403,659
Unsecured bank loans*	RUB	2016	7.01%-12.54%	7.01%-11.25%	5,204,165	5,204,165	5,204,165	9,883,563	9,883,563	9,883,563
Unsecured bank loans	RUB	2017	11.80%	11.80%	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Unsecured bank loans*	RUB	2017	10.00%	10.00%	200,000	200,000	200,000	200,000	200,000	200,000
Unsecured bank loans*	RUB	2018	8.06%-12.50%	8.06%-8.10%	8,140,611	8,140,611	8,140,611	3,229,493	3,229,493	3,229,493
Total debt					15,144,776	15,144,776	15,144,776	18,452,366	18,452,366	18,452,366

* - Loans from state-controlled entities



21. RETIREMENT BENEFIT OBLIGATIONS

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

- ▶ defined contribution pension plan and defined benefit pension plan; and
- ▶ defined benefit pension plans regulated by Collective Agreements that include lump sum benefits for pensioners, benefits paid in connection with the jubilee dates birthday of employees and pensioners, and financial support for pensioners, one-time benefits paid in case of death.

The tables below provide information about the employee benefit obligations and actuarial assumptions used for the periods ended 31 December 2015 and 2014.

The amounts recognised in the consolidated statement of financial position are as follows:

	31 December 2015	31 December 2014
Present value of post-employment obligation under defined benefit plans	1,673,133	1,523,981
Present value of other long-term employee benefit obligation	116,974	96,544
Total net defined benefit liability	1,790,107	1,620,525

The movement in the net defined benefit obligation over the year is as follows:

	Post-employment benefits	Other long-term employee benefit obligation	Total
As at 1 January 2015	1,523,981	96,544	1,620,525
Current service cost	58,082	8,061	66,143
Past service cost and curtailments	(9,323)	(911)	(10,234)
Interest expense	158,974	10,003	168,977
Remeasurement:			
Loss from change in financial assumptions	5,616	625	6,241
Gain from change in financial assumptions	104,923	12,539	117,462
Experience losses	28,100	3,300	31,400
Contributions	(197,220)	(13,187)	(210,407)
As at 31 December 2015	1,673,133	116,974	1,790,107

	Post-employment benefits	Other long-term employee benefit obligation	Total
As at 1 January 2014	1,590,725	82,770	1,673,495
Current service cost	68,809	6,521	75,330
Past service cost and curtailments	(44,092)	–	(44,092)
Interest expense	114,127	5,735	119,862
Remeasurement:			
Loss from change in financial assumptions	72,877	16,951	89,828
Gain from change in financial assumptions	(153,657)	(11,358)	(165,015)
Experience losses	39,322	7,005	46,327
Contributions	(164,130)	(11,080)	(175,210)
As at 31 December 2014	1,523,981	96,544	1,620,525

**ROSSETI**Interregional
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Amounts recognized in profit or loss:

	Year ended 31 December	
	2015	2014
Service cost	55,909	31,238
Remeasurement of present value of other long-term employee benefit obligation	16,464	12,599
Interest expense	168,977	119,862
Total expense recognised in profit or loss	241,350	163,699

Amounts recognized in other comprehensive income

	Year ended 31 December	
	2015	2014
Loss from change in demographic assumptions	5,616	72,877
Gain from change in financial assumptions	104,923	(153,657)
Experience losses	28,100	39,322
Total (gain)/ loss recognised in other comprehensive income	138,639	(41,458)

The movement of remeasurement in other comprehensive income is as follows

	Year ended 31 December	
	2015	2014
As at 1 January	(403,463)	(362,005)
Movement of remeasurement	138,639	(41,458)
At 31 December	(264,824)	(403,463)

The principal actuarial assumptions are as follows

Financial actuarial assumptions

	31 December 2015	31 December 2014
Discount rate, annual (nominal)	9.5%	12.00%
Future financial support benefit increases	6.0%	7.00%
Future salary increases (nominal)	6.0%	7.00%

Demographic actuarial assumptions

	31 December 2015	31 December 2014
Expected retirement age		
Male	60	60
Female	55	55
Employee turnover	4.80%	4.90%
Mortality table	2011	2011



The sensitivity of the defined benefit obligation to changes in the principal assumptions is as follows:

	Change in assumption	Impact on defined benefit liability
Discount rate	Increase / decrease by 0.5%	Decrease/ Increase by 2.31%
Future salary increases	Increase / decrease by 0.5%	Increase / decrease by 1.08%
Future benefits increases (inflation)	Increase / decrease by 0.5%	Increase / decrease by 1.31%
Employee turnover	Increase / decrease by 10%	Decrease/ Increase by 0.84%
Mortality level	Increase / decrease by 10%	Decrease/ Increase by 0.30%

The above sensitivity analysis is based on reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant.

The Group expects to contribute 61,755 to its defined benefit pension plans in 2015.

As at 31 December 2015, weighted average duration of post-employment and other long term employee benefits was 6.4 years and 11.7 years, respectively.

22. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2015 and 2014 were as follows:

	31 December 2015	31 December 2014
Advances from customers	1,033,317	442,880
Long-term accounts payable	101,303	74,212
Other	–	29,502
Total	1,134,620	546,594

23. ACCOUNTS PAYABLE AND ADVANCES RECEIVED

Accounts payable and advances received as at 31 December 2015 and 2014 were as follows:

	31 December 2015	31 December 2014
Trade payables	5,901,893	5,845,624
Advances received	2,892,258	2,603,414
Unsettled liabilities for the acquisition of property, plant and equipment	2,053,157	1,981,381
Payables to employees	358,156	346,695
Dividends payable	1,351	1,317
Other payables	291,552	300,309
Total	11,498,367	11,078,740

No interest was charged on the outstanding balance for trade and other payables during credit period. All payables are RUB-denominated.



24. CURRENT PROVISIONS

	Provision for litigation and claims		Provision for unused vacation and bonuses	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
As at 1 January	137,980	134,144	413,784	743,007
Accrual of provision	137,511	20,375	1,109,035	985,989
Reversal of provision	(30,389)	(2,857)	–	(15,521)
Utilization of provision	(43,516)	(13,682)	(1,017,929)	(1,299,691)
As at 31 December	201,586	137,980	504,890	413,784

The provisions relate to court cases against the Group and outstanding disputes with sales companies for electricity purchased for compensation of losses.

The unused vacation provision was determined by reference to the number of unused vacation days as at the reporting date and the employees' annual average pay rates.

The provision for annual bonus is an estimate of expense for the 2015 performance bonus payment.

The provisions established as at 31 December 2015 are expected to be used in 2016.

25. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Control relationships

The Government of the Russian Federation, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Group. As at 31 December 2015 the Group was controlled by OJSC Russian Grids, a state controlled entity (see Note 1).

Management remuneration

There are no transactions or balances with key management and close family members except for their remuneration in the form of salary and bonuses. Total key management remuneration which was included in personnel expenses amounted to:

	Year ended 31 December	
	2015	2014
Salaries and bonuses	180,806	146,500
Pension and benefits on retirement	(1,048)	(23,300)

Transactions with state-controlled entities

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

Revenues from state-controlled entities for the year ended 31 December 2015 constitute 12.4% (2014: 15.8%) of total Group revenues and 9.2% (2014: 9.8%) of power transmitting revenue.

Electricity transmission fees due to state-controlled entities for the year ended 31 December 2015 constitute 55.1% (2014: 52.8%) of total power transmitting services costs.



Cash and cash equivalents in state-controlled banks as at 31 December 2015 constitute 93.6% (31 December 2014: 94.6%) of total cash and cash equivalents.

Significant loans from state controlled entities are disclosed in Note 20.

Pricing policies

Related party revenue for power transmitting is based on the tariffs determined by the Federal Service on Tariffs and the Regional Energy Commission.

26. COMMITMENTS AND CONTINGENCIES

Political environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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

Insurance

The insurance market in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not widely spread in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, and land transport as well as accident, health and medical insurance for employees. Furthermore, the Group has arranged for third party liability insurance in respect of potential effects related to usage of dangerous production facilities.

As at 31 December 2015 the Group has insured its main production assets with the insurance coverage of RUB 45,671,247 (as at 31 December 2014: RUB 43,659,377) and vehicles below 10 years of age with the insurance coverage of RUB 522,913 (as at 31 December 2014: RUB 573,298).

Apart from this, the Group does not have full coverage for its production facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business. In the opinion of management of the Group,



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there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Taxation contingencies in Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more tough position in their interpretation and enforcement of tax legislation.

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

Environmental matters

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

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

Disagreements with counterparties

The Group believes that all its sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. Disagreements between the Group and its counterparties on to the amount of mutual obligations are normally proceeded in courts.

Disagreements appear due to different approaches to electricity volume's calculation, tariffs applied by the Group and its counterparties and disagreements regarding electric power transmitted via "last-mile" grid. Disagreements on the volume of electricity distributed impact the volume of electric power the Group has to acquire from sales companies to compensate electricity losses.

Often the Group comes to an amicable agreement with its counteragents regarding the reimbursement of electric power losses in case of disagreements related to electricity transmission services.

The Group recognise allowance for doubtful debts for receivables on electricity transmission services challenged by customers and provision for counterparties' claims for reimbursement of electric power acquired to compensate electricity losses in case of adverse court precedents outcomes for the



same/similar court cases for distribution companies took place in the past.

Capital expenditure commitments

As at 31 December 2015, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment of 2,188,811 (as at 31 December 2014: 2,395,109).

27. OPERATING LEASE ARRANGEMENTS

The Group mainly leases land from municipal authorities. The leases provide an option to renew the lease after the end of lease term. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

	Year ended 31 December	
	2015	2014
Rental land payments	52,980	53,859
Other rental payments	33,918	96,368
Total	86,897	150,227

Non-cancellable operating lease rentals are payable as follows:

	31 December 2015	31 December 2014
Less than one year	57,337	66,717
Between one and five years	179,919	173,928
More than five years	1,279,376	1,232,083
Total	1,516,632	1,472,728

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- ▶ The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to their quoted closing bid price;
- ▶ The fair value of other financial assets and financial liabilities is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.
- ▶ The fair value of cash, short-term loans and receivables, trade and other payables and short-term borrowings approximate their carrying amounts as at 31 December 2015 largely due to the short-term maturities of these instruments.



Fair value measurement

	Total	Using quotation in active markets (Level 1)	Using significant observable inputs (Level 2)	Using significant unobservable inputs (Level 3)
31 December 2015				
Available-for-sale financial assets	6,785	6,785	–	–
Long-term account receivables	107,799	–	–	107,799
Long-term deposits	393,899	–	–	393,899
Loans and borrowings with fixed interest rate	14,217,010	–	–	14,217,010
31 December 2014				
Available-for-sale financial assets	8,331	8,331	–	–
Long-term account receivables	168,290	–	–	168,290
Long-term deposits	210,446	–	–	210,446
Loans and borrowings with fixed interest rate	13,375,860	–	–	13,375,860

The fair value of financial assets recognised in the consolidated statement of financial position at fair value (refer to Notes 13 and 29) was determined based on quoted closing bid prices on MICEX at the reporting date (Level 1 of fair value measurement hierarchy in accordance with IFRS 7).

29. FINANCIAL RISK MANAGEMENT

Overview

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

- ▶ credit risk;
- ▶ liquidity risk;
- ▶ market risks.

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.

(a) Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Industry risks

Industry risk is caused by the changes in economic condition of the industry and the extent of these changes within the industry as well as in comparison with other industries. Industry risk is mainly



related to credit risk and have direct impact on it.

The legislation in the Russian Federation regulating electric power transmission is in a developing state, and is characterised by frequent changes and subject to varying interpretation. Because of these reasons, various interpretations of the legislation and contractual terms relatively often take place between electricity market participants, which results in disagreements under various grounds and entail the following risks:

- ▶ Risk of the significant increase in overdue accounts receivable and growth of bad debts for electricity transmission services, particularly with sale companies regarding industry legislation treatment in respect of electricity transmission services settlements.
- ▶ Risk of reduction of the volume of services provided due to termination (non-prolongation) of Unified National Electricity Network grids rent arrangements with PJSC “FGC UES” (last mile contracts), which may arise from changes in the regulatory and legislative frameworks.

The Group undertakes the following activities in order to minimize the above mentioned risks:

- ▶ monitoring agreement terms compliance and timely response to disputable matters as well as initiation and prolongation of grids’ rent agreements with PJSC “FGC UES”;
- ▶ monitoring electricity balances (in natural units) and analysis of actual amount of electricity losses and the volume of electricity transmitted including electricity volumes transmitted to customers connected via grids leased under last mile agreements with PJSC “FGC UES” and excluding these volumes;
- ▶ continuous analysis of reasons for disagreements with customers, including disagreements regarding the volume of electricity transmitted;
- ▶ court proceedings by the Group in respect of disagreement cases when customers challenge grids’ transmitting spots ownership of the Group in order to accumulate precedents of positive court outcomes on such issues.

Major categories of financial instruments

The Group holds a number of financial instruments with specific characteristics and financial risk factors associated with them. The Group’s principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various financial assets such as trade receivables and loans given, cash and cash equivalents, and promissory notes.

Financial instruments per categories as at 31 December 2015 and 31 December 2014 were as follows:

Financial assets per category	31 December 2015	31 December 2014
<i>Available-for-sale financial assets</i>		
Available-for-sale investments	6,785	8,331
<i>Loans and receivables</i>		
Trade and other receivables	15,212,943	14,378,388
Deposits	–	1,147,559
<i>Cash and cash equivalents</i>		
Cash and cash equivalents	71,247	1,038,530



Financial assets per category	31 December 2015	31 December 2014
Total financial assets	15,290,975	16,572,808
Financial liabilities per category	31 December 2015	31 December 2014
<i>Financial liabilities at amortized cost</i>		
Loans and borrowings	(15,144,776)	(18,452,366)
Trade and other payables	(8,247,953)	(8,128,621)
Total financial liabilities	(23,392,729)	(26,580,997)

(c) Credit risk

Credit risk is the risk that a counterparty will default on its obligations to the Group, leading to financial losses to the Group. Credit risk arises from cash and cash equivalents, deposits with banks as well as credit exposure to customers, including outstanding unsecured trade and other receivables. The carrying amount of financial assets represents the maximum credit exposure.

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

Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. Credit limits attributable to customers are regularly reviewed at least on an annual basis. Of the receivables balance as at 31 December 2015, the Group's ten largest customers (individually 1% and above of the total balance) represent 47% (31 December 2014: 49%) of the outstanding balance.

The credit risk arising from the other financial assets of the Group, which include cash and cash equivalents, arises from the risk of default of the counterparty, with the maximum exposure being equal to the carrying value of these instruments.

Offsetting of financial assets and liabilities

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognized amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

The following table sets out the carrying amounts of recognized financial instruments that are subject to the above agreements.

	Trade and other receivables	Trade and other payables
31 December 2015		
Net amounts presented in the statement of financial position	1,461,102	6,150,720
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(510,958)	(510,958)
Amounts related to financial collateral (including cash collateral)	—	—
Net amount	950,144	5,639,763



	Trade and other receivables	Trade and other payables
31 December 2014		
Net amounts presented in the statement of financial position	2,570,324	6,059,458
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(295,263)	(295,263)
Amounts related to financial collateral (including cash collateral)	–	–
Net amount	2,275,061	5,764,195

The net amounts presented in the statement of financial position disclosed above form part of trade and other receivables and trade and other payables, respectively. Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Available loan facilities

As at 31 December 2015 the Group has available loan facilities (unutilised credit lines), which is planned to be subsequently utilised by the Group of 8,088,956 (31 December 2014: 3,148,222).

Liquidity analysis of the Group's obligations

The following are the contractual maturities of financial liabilities, including estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 December 2015	Carrying amount	Contractual cash flows	Up to 6 month	6 month-1 year	1-2 years	2-3 years	3-4 years	4-5 years
Non-derivative financial liabilities								
Loans and borrowings	15,144,776	17,883,526	1,405,349	4,997,277	2,860,967	8,619,933	–	–
Trade and other payables	8,247,953	8,247,953	8,247,953	–	–	–	–	–
	23,392,729	26,131,479	9,653,302	4,997,277	2,860,967	8,619,933	–	–
31 December 2014								
Non-derivative financial liabilities								
Loans and borrowings	18,452,366	21,611,624	1,216,974	3,813,353	10,892,031	2,239,197	3,450,069	–
Trade and other payables	8,128,631	8,128,631	8,128,631	–	–	–	–	–
	26,580,997	29,740,255	9,345,605	3,813,353	10,892,031	2,239,197	3,450,069	–



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(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's profit or the value of its holding 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

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The foreign currency transactions, undertaken by the Group, are minimal and thus the Group has limited exposure to foreign currency risk.

(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 at fixed or variable rates.

However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

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.

Under the loan agreements to which the Group is a party, in the event of a significant change in the Bank of Russia key rate the Group's lenders may unilaterally raise the rates on the committed loan facilities. Consequently, an increase in interest rates associated with insufficient liquidity in the banking system may have a strong effect on the financial and economic activities of the Group.

To mitigate interest rate risks, the Group: provides for increases in interest rates in its business plans; has long-term revolving facility agreements under which interest rates may only increase if the Bank of Russia refinancing rate changes; initiates open competitive tenders to select lending service providers, so that the Group is able to borrow on the most favourable terms.

(f) Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. There were no changes to the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30. EVENTS AFTER THE REPORTING PERIOD

After 31 December 2015 there are no events what one might materially affect for financial position of the Group.