

**OGK-2 GROUP  
CONSOLIDATED FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING  
STANDARDS (IFRS)  
FOR THE YEAR ENDED 31 DECEMBER 2015**



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## AUDITOR'S REPORT

**To the Shareholders and the Board of Directors of Public Joint Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (JSC "OGK-2")**

### **Audited Entity**

Public Joint Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (JSC "OGK-2")

JSC "OGK-2" is registered by the Federal Tax Inspectorate for the Izobilnensky District of the Stavropol Region. Registered in the Unified State Register of Legal Entities on 9 March 2005 under the state registration number 1052600002180.

Registered office: Solnechnodolsk, Izobilnensky District, Stavropol Region, 356128, Russian Federation.

### **Auditor**

BDO Unicon Aktsionernoe Obshchestvo (BDO Unicon AO)

Registered by Tax Inspectorate No. 26 of the RF Ministry of Taxation in the Southern Administrative District of the City of Moscow, Certificate of Registration No. 1037739271701.

Registered office: 11/1, 125 Warshavskoye Shosse, Moscow, 117587, Russian Federation.

BDO Unicon AO is a member of the professional audit association Self-regulated organization of auditors "Audit chamber of Russia" (Association) (Main State Registration No. 10201018307 in the State Register of Auditors and Audit Organisations).

Authority to sign the Auditor's Report rests with Sergey Albu, Partner, by way of Power of Attorney No. 13-01/2016-540 of 1 January 2016.

We have audited the accompanying consolidated financial statements of JSC "OGK-2" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and explanatory notes to the consolidated financial statements for the year ended 31 December 2015 which comprise a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management of JSC "OGK-2" is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and legislation of the Russian Federation in respect of the preparation of the consolidated financial statements, and for the internal control system necessary for 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 these consolidated financial statements based on our audit. We conducted our audit in accordance with Federal Standards on Auditing and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC "OGK-2" and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and legislation of the Russian Federation in respect of the preparation of the consolidated financial statements.

## Other Matter

The consolidated financial statements for the year ended 31 December 2014 were audited by another auditor, who expressed an unmodified opinion on those consolidated financial statements on 12 March 2015.

BDO Unicon AO

S. Albu  
Partner



4 March 2016

Total number of pages bound: 48.

**OGK-2 Group**  
**Consolidated Statement of Financial Position as at 31 December 2015**  
(in thousands of Russian Roubles unless noted otherwise)

|                                                               | Notes | 31 December<br>2015 | 31 December<br>2014<br>(Restated) | 1 January<br>2014<br>(Restated) |
|---------------------------------------------------------------|-------|---------------------|-----------------------------------|---------------------------------|
| <b>ASSETS</b>                                                 |       |                     |                                   |                                 |
| <b>Non-current assets</b>                                     |       |                     |                                   |                                 |
| Property, plant and equipment                                 | 7     | 178,397,832         | 160,583,951                       | 142,888,871                     |
| Intangible assets                                             | 8     | 1,104,608           | 1,379,277                         | 1,544,246                       |
| Deferred tax assets                                           | 14    | -                   | 26,844                            | -                               |
| Other non-current assets                                      | 9     | 978,332             | 1,001,985                         | 1,338,656                       |
| <b>Total non-current assets</b>                               |       | <b>180,480,772</b>  | <b>162,992,057</b>                | <b>145,771,773</b>              |
| <b>Current assets</b>                                         |       |                     |                                   |                                 |
| Cash and cash equivalents                                     | 10    | 7,544,369           | 13,276,031                        | 5,832,634                       |
| Trade and other receivables                                   | 11    | 15,958,468          | 14,817,818                        | 19,287,432                      |
| Inventories                                                   | 12    | 10,943,670          | 7,337,129                         | 6,344,530                       |
| Income tax prepayments                                        |       | 449,766             | 47,301                            | 398,799                         |
| Other current assets                                          |       | -                   | -                                 | 3,100,000                       |
| <b>Total current assets</b>                                   |       | <b>34,896,273</b>   | <b>35,478,279</b>                 | <b>34,963,395</b>               |
| <b>TOTAL ASSETS</b>                                           |       | <b>215,377,045</b>  | <b>198,470,336</b>                | <b>180,735,168</b>              |
| <b>EQUITY AND LIABILITIES</b>                                 |       |                     |                                   |                                 |
| <b>Equity</b>                                                 |       |                     |                                   |                                 |
| <b>Share capital</b>                                          |       |                     |                                   |                                 |
| Ordinary shares                                               | 13    | 40,057,009          | 40,057,009                        | 40,057,009                      |
| Treasury shares                                               |       | (4,150,598)         | (4,339,331)                       | (4,058,856)                     |
| Share premium                                                 |       | 28,378,693          | 28,378,693                        | 28,378,693                      |
| Retained earnings and other reserves                          |       | 48,832,446          | 47,506,962                        | 48,617,804                      |
| <b>Equity attributable to the shareholders of JSC "OGK-2"</b> |       | <b>113,117,550</b>  | <b>111,603,333</b>                | <b>112,994,650</b>              |
| Non-controlling interest                                      |       | 2,083,512           | 4,945,624                         | 5,068,460                       |
| <b>Total equity</b>                                           |       | <b>115,201,062</b>  | <b>116,548,957</b>                | <b>118,063,110</b>              |
| <b>Non-current liabilities</b>                                |       |                     |                                   |                                 |
| Deferred income tax liabilities                               | 14    | 7,163,893           | 6,545,360                         | 6,708,002                       |
| Non-current debt                                              | 15    | 36,574,060          | 45,753,798                        | 37,681,164                      |
| Retirement benefit obligations                                | 16    | 1,991,052           | 1,530,239                         | 2,020,359                       |
| Restoration provision                                         | 17    | 1,051,656           | 1,445,484                         | 419,636                         |
| Other long-term liabilities                                   | 18    | 3,744,299           | 502,069                           | 996,514                         |
| <b>Total non-current liabilities</b>                          |       | <b>50,524,960</b>   | <b>55,776,950</b>                 | <b>47,825,675</b>               |
| <b>Current liabilities</b>                                    |       |                     |                                   |                                 |
| Current debt and current portion of non-current debt          | 19    | 36,141,251          | 7,986,888                         | 111,642                         |
| Trade and other payables                                      | 20    | 12,239,538          | 17,079,594                        | 13,967,312                      |
| Other taxes payable                                           | 21    | 794,989             | 816,575                           | 728,283                         |
| Income tax payable                                            |       | -                   | -                                 | 592                             |
| Restoration provision                                         | 17    | 475,245             | 261,372                           | 38,554                          |
| <b>Total current liabilities</b>                              |       | <b>49,651,023</b>   | <b>26,144,429</b>                 | <b>14,846,383</b>               |
| <b>Total liabilities</b>                                      |       | <b>100,175,983</b>  | <b>81,921,379</b>                 | <b>62,672,058</b>               |
| <b>TOTAL EQUITY AND LIABILITIES</b>                           |       | <b>215,377,045</b>  | <b>198,470,336</b>                | <b>180,735,168</b>              |

General Director

Chief Accountant



D.N. Bashuk

L.V. Klisch

4 March 2016

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 48

**OGK-2 Group****Consolidated Statement of Profit or Loss for the year ended 31 December 2015**

(in thousands of Russian Roubles unless noted otherwise)

|                                                                                                                                      | Notes | Year ended<br>31 December 2015 | Year ended<br>31 December 2014<br>(Restarted) |
|--------------------------------------------------------------------------------------------------------------------------------------|-------|--------------------------------|-----------------------------------------------|
| Revenues                                                                                                                             | 22    | 112,233,374                    | 115,935,350                                   |
| Operating expenses                                                                                                                   | 23    | (108,532,856)                  | (116,782,724)                                 |
| Other operating income                                                                                                               |       | 217,972                        | 125,562                                       |
| <b>Operating profit / (loss)</b>                                                                                                     |       | <b>3,918,490</b>               | <b>(721,812)</b>                              |
| Finance income                                                                                                                       | 24    | 2,632,692                      | 1,371,052                                     |
| Finance costs                                                                                                                        | 25    | (3,169,258)                    | (1,192,261)                                   |
| Loss on disposal of available-for-sale investments                                                                                   |       | -                              | (112,295)                                     |
| <b>Profit / (loss) before income tax</b>                                                                                             |       | <b>3,381,924</b>               | <b>(655,316)</b>                              |
| Income tax charge                                                                                                                    | 14    | (785,301)                      | (913,209)                                     |
| <b>Profit / (loss) for the year</b>                                                                                                  |       | <b>2,596,623</b>               | <b>(1,568,525)</b>                            |
| Attributable to:                                                                                                                     |       |                                |                                               |
| Shareholders of JSC "OGK-2"                                                                                                          |       | 3,351,859                      | (1,445,689)                                   |
| Non-controlling interest                                                                                                             |       | (755,236)                      | (122,836)                                     |
| <b>Earnings / (loss) per ordinary share attributable to the shareholders of JSC "OGK-2" – basic and diluted (in Russian Roubles)</b> | 26    | <b>0.03</b>                    | <b>(0.01)</b>                                 |

The consolidated statement of profit or loss is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 48

**OGK-2 Group****Consolidated Statement of Comprehensive Income for the year ended 31 December 2015**

(in thousands of Russian Roubles unless noted otherwise)

|                                                                                                                              | Year ended<br>31 December 2015 | Year ended<br>31 December 2014<br>(Restarted) |
|------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-----------------------------------------------|
| <b>Profit / (loss) for the year</b>                                                                                          | <b>2,596,623</b>               | <b>(1,568,525)</b>                            |
| <i>Items that may be reclassified to profit or loss:</i>                                                                     |                                |                                               |
| Available-for-sale investments, net of tax                                                                                   | -                              | 11,752                                        |
| Accumulated loss on available-for-sale investments reclassified to Statement of Profit or Loss on their disposal, net of tax | -                              | 95,850                                        |
| <i>Items that will not be reclassified to profit or loss:</i>                                                                |                                |                                               |
| Remeasurements of retirement benefit obligation, net of tax                                                                  | (296,207)                      | 393,082                                       |
| <b>Total comprehensive income / (expense) for the year</b>                                                                   | <b>2,300,416</b>               | <b>(1,067,841)</b>                            |
| Attributable to:                                                                                                             |                                |                                               |
| Shareholders of JSC "OGK-2"                                                                                                  | 3,055,652                      | (945,005)                                     |
| Non-controlling interest                                                                                                     | (755,236)                      | (122,836)                                     |

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 48

**OGK-2 Group**
**Consolidated Statement of Cash Flows for the year ended 31 December 2015**

(in thousands of Russian Roubles unless noted otherwise)

|                                                                                                | Notes | Year ended<br>31 December<br>2015 | Year ended<br>31 December 2014<br>(Restarted) |
|------------------------------------------------------------------------------------------------|-------|-----------------------------------|-----------------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                   |       |                                   |                                               |
| Profit / (loss) before income tax                                                              |       | 3,381,924                         | (655,316)                                     |
| Adjustments to reconcile profit / (loss) before income tax to net cash provided by operations: |       |                                   |                                               |
| Depreciation of property, plant and equipment                                                  | 23    | 5,896,701                         | 4,968,635                                     |
| Amortisation of intangible assets                                                              | 23    | 296,732                           | 239,947                                       |
| Charge of provision for impairment of assets                                                   | 23    | 421,613                           | 8,646,854                                     |
| Reversal of property, plant and equipment impairment                                           | 7     | (1,813)                           | (105)                                         |
| Charge of provision for impairment of trade and other receivables                              | 23    | 1,220,111                         | 1,014,715                                     |
| (Reversal) / charge of provision for inventory obsolescence                                    | 23    | (19,925)                          | 113,707                                       |
| Finance income                                                                                 | 24    | (2,632,692)                       | (1,371,052)                                   |
| Finance costs                                                                                  | 25    | 3,169,258                         | 1,192,261                                     |
| Loss on disposal of available-for-sale investments                                             |       | -                                 | 112,295                                       |
| Non-state pensions and other long-term benefits                                                | 23    | 109,279                           | 4,131                                         |
| Loss on disposal of assets, net                                                                | 23    | 259,021                           | 22,573                                        |
| Other non-cash items                                                                           |       | 133,812                           | 49,438                                        |
| <b>Operating cash flows before working capital changes and income tax paid</b>                 |       | <b>12,234,021</b>                 | <b>14,338,083</b>                             |
| Working capital changes:                                                                       |       |                                   |                                               |
| Decrease / (increase) in trade and other receivables                                           |       | 792,295                           | (158,194)                                     |
| Increase in inventories                                                                        |       | (3,801,879)                       | (1,231,950)                                   |
| Increase in trade and other payables                                                           |       | 842,424                           | 687,004                                       |
| (Decrease) / increase in taxes payable, other than income tax                                  |       | (21,495)                          | 93,520                                        |
| Payments in respect of retirement benefit obligations                                          |       | (135,221)                         | (135,303)                                     |
| Income tax paid                                                                                |       | (510,493)                         | (847,377)                                     |
| <b>Net cash generated from operating activities</b>                                            |       | <b>9,399,652</b>                  | <b>12,745,783</b>                             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                   |       |                                   |                                               |
| Purchase of property, plant and equipment                                                      |       | (26,798,735)                      | (21,745,249)                                  |
| Proceeds from sale of property, plant and equipment                                            |       | 9,225                             | 41,574                                        |
| Purchase of intangible assets                                                                  |       | (20,077)                          | (86,613)                                      |
| Proceeds from bank deposits                                                                    |       | -                                 | 3,100,000                                     |
| Interest received                                                                              |       | 1,000,728                         | 1,100,416                                     |
| Increase in other non-current assets                                                           |       | (105,999)                         | -                                             |
| Proceeds from disposal of available-for-sale investments                                       |       | -                                 | 66,032                                        |
| <b>Net cash used in investing activities</b>                                                   |       | <b>(25,914,858)</b>               | <b>(17,523,840)</b>                           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                   |       |                                   |                                               |
| Proceeds from short-term borrowings                                                            |       | 2,950,000                         | -                                             |
| Proceeds from long-term borrowings                                                             |       | 21,239,908                        | 26,139,997                                    |
| Repayment of short-term borrowings                                                             |       | (6,950,722)                       | -                                             |
| Repayment of long-term borrowings                                                              |       | (651,513)                         | (10,131,891)                                  |
| Interest paid                                                                                  |       | (4,871,593)                       | (3,675,271)                                   |
| Payments under finance lease                                                                   |       | (76,077)                          | (109,913)                                     |
| Dividend paid by the Group to Shareholders of JSC "OGK-2"                                      |       | (856,073)                         | -                                             |
| Finance lease advance                                                                          |       | (386)                             | (1,468)                                       |
| <b>Net cash generated from financing activities</b>                                            |       | <b>10,783,544</b>                 | <b>12,221,454</b>                             |
| <b>Net (decrease) / increase in cash and cash equivalents</b>                                  |       | <b>(5,731,662)</b>                | <b>7,443,397</b>                              |
| <b>Cash and cash equivalents at the beginning of the year</b>                                  | 10    | <b>13,276,031</b>                 | <b>5,832,634</b>                              |
| <b>Cash and cash equivalents at the end of the year</b>                                        | 10    | <b>7,544,369</b>                  | <b>13,276,031</b>                             |



**OGK-2 Group**
**Consolidated Statement of Changes in Equity for the year ended 31 December 2015**

(in thousands of Russian Roubles unless noted otherwise)

|                                                                                                               | Share capital     | Treasury shares    | Share premium     | Retained earnings and other reserves | Equity attributable to the shareholders of JSC "OGK-2" | Non-controlling interest | Total equity       |
|---------------------------------------------------------------------------------------------------------------|-------------------|--------------------|-------------------|--------------------------------------|--------------------------------------------------------|--------------------------|--------------------|
| <b>At 1 January 2014 (Restarted)</b>                                                                          | <b>40,057,009</b> | <b>(4,058,856)</b> | <b>28,378,693</b> | <b>48,617,804</b>                    | <b>112,994,650</b>                                     | <b>5,068,460</b>         | <b>118,063,110</b> |
| Loss for the year                                                                                             | -                 | -                  | -                 | (1,445,689)                          | (1,445,689)                                            | (122,836)                | (1,568,525)        |
| Available-for-sale investments, net of tax                                                                    | -                 | -                  | -                 | 11,752                               | 11,752                                                 | -                        | 11,752             |
| Accumulated loss on available-for-sale investments recycled to Income Statement on their disposal, net of tax | -                 | -                  | -                 | 95,850                               | 95,850                                                 | -                        | 95,850             |
| Remeasurements of retirement benefit obligations, net of tax                                                  | -                 | -                  | -                 | 393,082                              | 393,082                                                | -                        | 393,082            |
| <i>Total comprehensive expense for the year</i>                                                               | -                 | -                  | -                 | <i>(945,005)</i>                     | <i>(945,005)</i>                                       | <i>(122,836)</i>         | <i>(1,067,841)</i> |
| Acquisition of treasury shares                                                                                | -                 | (471,493)          | -                 | -                                    | (471,493)                                              | -                        | (471,493)          |
| Payment of remuneration                                                                                       | -                 | 189,951            | -                 | (168,040)                            | 21,911                                                 | -                        | 21,911             |
| Sale of treasury shares                                                                                       | -                 | 1,067              | -                 | (765)                                | 302                                                    | -                        | 302                |
| Other transactions                                                                                            | -                 | -                  | -                 | 2,968                                | 2,968                                                  | -                        | 2,968              |
| <b>At 31 December 2014 (Restarted)</b>                                                                        | <b>40,057,009</b> | <b>(4,339,331)</b> | <b>28,378,693</b> | <b>47,506,962</b>                    | <b>111,603,333</b>                                     | <b>4,945,624</b>         | <b>116,548,957</b> |
| <b>At 1 January 2015 (Restarted)</b>                                                                          | <b>40,057,009</b> | <b>(4,339,331)</b> | <b>28,378,693</b> | <b>47,506,962</b>                    | <b>111,603,333</b>                                     | <b>4,945,624</b>         | <b>116,548,957</b> |
| Profit / (loss) for the year                                                                                  | -                 | -                  | -                 | 3,351,859                            | 3,351,859                                              | (755,236)                | 2,596,623          |
| Remeasurements of retirement benefit obligations, net of tax                                                  | -                 | -                  | -                 | (296,207)                            | (296,207)                                              | -                        | (296,207)          |
| <i>Total comprehensive income / (expense) for the year</i>                                                    | -                 | -                  | -                 | <i>3,055,652</i>                     | <i>3,055,652</i>                                       | <i>(755,236)</i>         | <i>2,300,416</i>   |
| Dividends (Note 13)                                                                                           | -                 | -                  | -                 | (860,562)                            | (860,562)                                              | -                        | (860,562)          |
| Acquisition of businesses under common control (Note 13)                                                      | -                 | -                  | -                 | (708,991)                            | (708,991)                                              | (2,106,876)              | (2,815,867)        |
| Payment of remuneration (Note 13)                                                                             | -                 | 188,733            | -                 | (161,198)                            | 27,535                                                 | -                        | 27,535             |
| Other transactions (Note 13)                                                                                  | -                 | -                  | -                 | 583                                  | 583                                                    | -                        | 583                |
| <b>At 31 December 2015</b>                                                                                    | <b>40,057,009</b> | <b>(4,150,598)</b> | <b>28,378,693</b> | <b>48,832,446</b>                    | <b>113,117,550</b>                                     | <b>2,083,512</b>         | <b>115,201,062</b> |

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 48



**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2015**

(in thousands of Russian Roubles unless noted otherwise)

**Note 1. The Group and its operations**

Public Joint Stock Company (till 24 June 2015 - Open Joint Stock Company) "The Second Generating Company of the Wholesale Electric Power Market" (JSC "OGK-2", or the "Company") was established on 9 March 2005 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

The primary activities of the Company are generation and sale of electric and heat power. The Company consists of the following power stations (plants): Troitskaya GRES, Stavropolskaya GRES, Pskovskaya GRES, Serovskaya GRES, Surgutskaya GRES-1, Kirishskaya GRES, Ryazanskaya GRES, Novochercasskaya GRES, Krasnoyarskaya GRES-2, Cherepovetskaya GRES. The Company rents Adlerskaya TES station under operating lease agreement.

In April 2015 new operating branch was set up for the purpose of operation of Groznenskaya TES, which is currently being constructed by Gazprom group.

The Company is registered by the Izobilnensk District Inspectorate of the RF Ministry of Taxation of Stavropol Region.

The Company's office is located at 101-3, Vernadskogo Avenue, 119526, Moscow, Russian Federation.

JSC "OGK-2" and its following subsidiaries form the OGK-2 Group (the "Group"):

|                        | % owned          |                  |
|------------------------|------------------|------------------|
|                        | 31 December 2015 | 31 December 2014 |
| LLC "OGK-2 Finance"    | 100%             | 100%             |
| LLC "Centr 112"        | 100%             | 100%             |
| LLC "OGK-Investproekt" | 55%              | 9.5%             |

On December 2015 the Company acquired 45.5% of the capital of LLC "OGK-Investproekt" from MOSENERGO (another company of Gazprom Group), share in capital was increased up to 55%. As a result of acquisition the Group obtained control over the LLC "OGK-Investproekt". LLC "OGK-Investproekt" is provider of construction services.

Financial information about LLC "OGK-Investproekt" non-controlling interest is presented in Consolidated Statement of Financial Position, Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity. LLC "OGK-Investproekt" did not pay dividends.

The following table summarizes financial information about each subsidiary, that has non-controlling interest, before any intra-group eliminations. The assets, liabilities, revenue, loss, comprehensive expense presented below are total consolidated data, but not only the Group's share:

|                                                      | Non-current assets | Current assets | Non-current liabilities | Current liabilities | Revenue   | Loss      | Total comprehensive expense |
|------------------------------------------------------|--------------------|----------------|-------------------------|---------------------|-----------|-----------|-----------------------------|
| <b>As of and for the year ended 31 December 2015</b> |                    |                |                         |                     |           |           |                             |
| LLC "OGK-Investproekt"                               | 16,802,180         | 1,437,002      | 7,993,316               | 5,486,731           | 2,852,470 | (705,365) | (705,365)                   |
| <b>As of and for the year ended 31 December 2014</b> |                    |                |                         |                     |           |           |                             |
| LLC "OGK-Investproekt"                               | 17,854,647         | 1,280,981      | 6,203,332               | 7,467,796           | 289,210   | (135,724) | (135,724)                   |

**Operating environment of the Group.** The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 28). During 2015 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

## OGK-2 Group

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

(in thousands of Russian Roubles unless noted otherwise)

**Relations with the state and current regulation.** JSC "OGK-2" is part of the Gazprom Group, which includes PJSC Gazprom and its subsidiaries. PJSC "Centerenergyholding" owns 73.42% of the shares of JSC "OGK-2" as at 31 December 2015 (as at 31 December 2014: 73.42%).

Gazprom Group, in its turn, is controlled by the Russian Federation, therefore, the Russian Government is the ultimate controlling party of the Group as at 31 December 2015 and 31 December 2014.

The Group's customer base includes a large number of entities controlled by or related to the State. The list of the Group's major fuel suppliers includes subsidiaries of PJSC Gazprom.

The government of the Russian Federation directly affects the Group's operations through regulations of wholesale sales of electricity (capacity) and retail sales of heat exercised by the Federal Antimonopoly Service ("FAS") and the tariffs regulation executive authorities. JSC "System Operator of the United Power System" ("SO UPS"), which is controlled by the Russian Federation represented by the Federal executive body for state property management, regulates operations of generating assets of the Group.

As described in Note 28, the government's economic, social and other policies could have material effects on the operations of the Group.

#### Note 2. Basis of preparation

**Statement of compliance.** These consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations adopted by the International Accounting Standards Board ("IASB").

The Company and each subsidiary of the Company individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Russian Accounting Rules ("RAR"). The accompanying financial statements are based on the statutory records adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

**Basis of measurement.** The financial statements are prepared on the historical cost basis except financial instruments measured at fair value at initial recognition and revaluation of financial investments classified as available-for-sale.

**Functional and presentation currency.** The national currency of the Russian Federation is the Russian Rouble ("RR"), which is the functional currency of the Company and its subsidiaries and the currency in which these financial statements are presented. All financial information presented in RR has been rounded to the nearest thousand, unless otherwise stated.

**Critical accounting estimates and assumptions.** The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

#### *Impairment provision for trade and other receivables*

The impairment provision for trade and other receivables is based on the Group's assessment of whether the collectability of specific customer accounts worsened compared to prior estimates. If there is deterioration/impairment in a major customer's creditworthiness or actual defaults are higher/lower than the estimates, the actual results could differ from these estimates. See effect of these critical accounting estimates and assumptions in Note 11.

#### *Impairment of property, plant and equipment*

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the consolidated statement of profit or loss in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 7. As described in Notes 1 and 28, the

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2015**

(in thousands of Russian Roubles unless noted otherwise)

Government's economic, social and other policies could have material effects on the operations of the Group.

*Useful lives of property, plant and equipment*

The estimation of the useful lives of an items of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates. See effect of these critical accounting estimates and assumptions in Note 7, useful lives are presented in Note 5.

*Tax contingencies*

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently (Note 28). Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these consolidated financial statements.

*Restoration provision*

The Group reviews its decommissioning liability, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur. See effect of these critical accounting estimates and assumptions in Note 17.

*Classification of lease agreement as finance and operating lease*

Management applies judgement to determine whether all the significant risks and rewards associated with leased assets are transferred to the Group. Management consider all circumstances that individually or in the aggregate would normally lead to a lease being classified as a finance lease: transfer of ownership at the end of the lease term; bargain purchase option; lease term is for the major part of the leased asset useful life even if ownership is not transferred; present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased assets; leased assets are of specialised nature and can be used only by the Group. Changes in any of these conditions may result in reclassifying the lease in the future. The lease of Adlerskaya TES station is classified as operating lease by the Group based on the analysis of terms of lease agreement and all of the facts and circumstances.

**Note 3. Restatement of comparatives**

According to the Group's accounting policy the acquisition of the entity under common control (Note 1) is accounted for in the consolidated financial statements as if the acquisition had occurred at the beginning of the earliest comparative period presented, for this purpose comparatives are restated:

***Impact on Consolidated Statement of Financial Position:***

|                                 | <b>31 December<br/>2014</b> | <b>1 January<br/>2014</b> |
|---------------------------------|-----------------------------|---------------------------|
| Property, plant and equipment   | 17,827,717                  | 14,398,570                |
| Intangible assets               | 86                          | 185                       |
| Deferred tax assets             | 26,844                      | -                         |
| Other non-current assets        | (1,567,220)                 | (1,579,326)               |
| <b>Total non-current assets</b> | <b>16,287,427</b>           | <b>12,819,429</b>         |
| Cash and cash equivalents       | 220,432                     | 76,403                    |
| Trade and other receivables     | 597,004                     | 552,617                   |
| Inventories                     | 54                          | 240                       |
| Income tax prepayments          | 311                         | 311                       |
| <b>Total current assets</b>     | <b>817,801</b>              | <b>629,571</b>            |
| <b>TOTAL ASSETS</b>             | <b>17,105,228</b>           | <b>13,449,000</b>         |

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2015**

(in thousands of Russian Roubles unless noted otherwise)

|                                                      |                   |                   |
|------------------------------------------------------|-------------------|-------------------|
| Retained earnings and other reserves                 | (2,420)           | 979               |
| <b>Equity attributed to shareholders JSC "OGK-2"</b> | <b>(2,420)</b>    | <b>979</b>        |
| Non-controlling interest                             | 4,945,624         | 5,068,460         |
| <b>Total equity</b>                                  | <b>4,943,204</b>  | <b>5,069,439</b>  |
| Deferred income tax liabilities                      | 2,420             | 5,085             |
| Non-current debt                                     | 5,154,988         | 3,039,624         |
| <b>Total non-current liabilities</b>                 | <b>5,157,408</b>  | <b>3,044,709</b>  |
| Current debt and current portion of non-current debt | 1,424,633         | 31,891            |
| Trade and other payables                             | 5,556,568         | 5,302,376         |
| Other taxes payable                                  | 23,415            | 585               |
| <b>Total current liabilities</b>                     | <b>7,004,616</b>  | <b>5,334,852</b>  |
| <b>Total liabilities</b>                             | <b>12,162,024</b> | <b>8,379,561</b>  |
| <b>TOTAL EQUITY AND LIABILITIES</b>                  | <b>17,105,228</b> | <b>13,449,000</b> |

**Impact on Consolidated Statement of Profit or Loss:**

|                               | Year ended<br>31 December 2014 |
|-------------------------------|--------------------------------|
| Revenues                      | (102,947)                      |
| Operating expenses            | 74,624                         |
| Other operating items         | (1,691)                        |
| <b>Operating loss</b>         | <b>(30,014)</b>                |
| Finance income                | (16,814)                       |
| Finance costs                 | (121,022)                      |
| <b>Loss before income tax</b> | <b>(167,850)</b>               |
| Income tax charge             | 31,929                         |
| <b>Loss for the year</b>      | <b>(135,921)</b>               |
| Attributable to:              |                                |
| Shareholders of JSC "OGK-2"   | (13,085)                       |
| Non-controlling interest      | (122,836)                      |

**Impact on Consolidated Statement of Comprehensive Income:**

|                                                                                                                              | Year ended<br>31 December 2014 |
|------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| <b>Loss for the year</b>                                                                                                     | <b>(135,921)</b>               |
| Available-for-sale investments, net of tax                                                                                   | 12,107                         |
| Accumulated loss on available-for-sale investments reclassified to Statement of Profit or Loss on their disposal, net of tax | (2,421)                        |
| <b>Total comprehensive expense for the year</b>                                                                              | <b>(126,235)</b>               |
| Attributable to:                                                                                                             |                                |
| Shareholders of JSC "OGK-2"                                                                                                  | (3,399)                        |
| Non-controlling interest                                                                                                     | (122,836)                      |

**Impact on Consolidated Statement of Cash Flows:**

|                                                                                     | Year ended<br>31 December 2014 |
|-------------------------------------------------------------------------------------|--------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                        |                                |
| Loss before income tax                                                              | (167,850)                      |
| Adjustments to reconcile loss before income tax to net cash provided by operations: |                                |
| Depreciation of property, plant and equipment                                       | 238,412                        |
| Finance income                                                                      | 16,814                         |
| Finance costs                                                                       | 121,022                        |
| Loss on disposal of assets, net                                                     | 12                             |
| <b>Operating cash flows before working capital changes and income tax paid</b>      | <b>208,410</b>                 |

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2015**

(in thousands of Russian Roubles unless noted otherwise)

|                                                               |                    |
|---------------------------------------------------------------|--------------------|
| <b>Working capital changes:</b>                               |                    |
| Increase in trade and other receivables                       | (61,200)           |
| Decrease in inventories                                       | 187                |
| Increase in trade and other payables                          | 104,512            |
| Increase in taxes payable, other than income tax              | 22,830             |
| <b>Net cash generated from operating activities</b>           | <b>274,739</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                  |                    |
| Purchase of property, plant and equipment                     | (3,119,590)        |
| <b>Net cash used in investing activities</b>                  | <b>(3,119,590)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                  |                    |
| Proceeds from long-term borrowings                            | 3,539,997          |
| Repayment of long-term borrowings                             | (31,891)           |
| Interest paid                                                 | (519,226)          |
| <b>Net cash generated from financing activities</b>           | <b>2,988,880</b>   |
| <b>Net increase in cash and cash equivalents</b>              | <b>144,029</b>     |
| <b>Cash and cash equivalents at the beginning of the year</b> | <b>76,403</b>      |
| <b>Cash and cash equivalents at the end of the year</b>       | <b>220,432</b>     |

**Impact on Consolidated Statement of Changes in Equity:**

|                                                 | Retained earnings and other reserves | Equity attributable to the shareholders of JSC "OGK-2" | Non-controlling interest | Total equity     |
|-------------------------------------------------|--------------------------------------|--------------------------------------------------------|--------------------------|------------------|
| <b>At 1 January 2014</b>                        | <b>979</b>                           | <b>979</b>                                             | <b>5,068,460</b>         | <b>5,069,439</b> |
| Loss for the year                               | (13,085)                             | (13,085)                                               | (122,836)                | (135,921)        |
| Available-for-sale investments, net of tax      | 9,686                                | 9,686                                                  | -                        | 9,686            |
| <i>Total comprehensive expense for the year</i> | <i>(3,399)</i>                       | <i>(3,399)</i>                                         | <i>(122,836)</i>         | <i>(126,235)</i> |
| <b>At 31 December 2014</b>                      | <b>(2,420)</b>                       | <b>(2,420)</b>                                         | <b>4,945,624</b>         | <b>4,943,204</b> |

**Note 4. New accounting developments**

The following amendments to standards and interpretations became effective from 1 January 2015 but did not have any material impact on the Group's consolidated financial statements:

- *"Defined Benefit Plans: Employee Contributions"* - amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 July 2014). The amendments allow entities to recognize employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service;

- Annual Improvements to IFRSs, 2012 (effective for annual periods beginning on or after 1 July 2014). Includes amendments to IFRS 2, IFRS 3, IFRS 8, base to conclusion for IFRS 13, IAS 16 and IAS 38, IAS 24;

- Annual Improvements to IFRSs, 2013 (effective for annual periods beginning on or after 1 July 2014). Includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.

Certain new standards, amendments to standards and interpretations, approved for application in the Russian Federation, have been issued that are mandatory for the annual reporting periods of the Group beginning on or after 1 January 2016 or later, and which the Group has not early adopted:

- IFRS 15 *"Revenue from Contracts with Customers"* (effective for periods beginning on or after 1 January 2018);

- IFRS 9 *"Financial Instruments"* (effective for annual periods beginning on or after 1 January 2018);

- *"Accounting for Acquisitions of Interests in Joint Operations"* amendment to IFRS 11 *"Joint Arrangements"* (effective for annual periods beginning on or after 1 January 2016);

- *"Clarification of Acceptable Methods of Depreciation and Amortisation"* - amendments to IAS 16 *"Property Plant and Equipment"* and IAS 38 *"Intangible Assets"* (effective for annual periods beginning on or after 1 January 2016);

- *"Equity Method in Separate Financial Statements"* - amendments to IAS 27 (effective for annual periods beginning on or after 1 January 2016);
- *"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"* – amendments to IFRS 10 and IAS 28 (effective for annual periods beginning on or after 1 January 2016);
- Annual Improvements to IFRSs, 2014 (effective for periods beginning on or after 1 July 2016). Includes amendments to: IFRS 5, IFRS 7, IAS 19 и IAS 34;
- *"Disclosure Initiative"* - amendments to IAS 1 (effective for periods beginning on or after 1 January 2016);
- *"Investment Entities: Applying the Consolidation Exemption"* - amendments to IFRS 10, IFRS 12 and IAS 28 (effective for annual periods beginning on or after 1 January 2016).

The Group is currently assessing the impact of the new standards, amendments to standards and interpretations on its consolidated financial statements.

#### **Note 5. Summary of significant accounting policies**

**Principles of consolidation.** The consolidated financial statements comprise the financial statements of the Company and those entities whose operations are controlled by the Company.

##### *A) Subsidiaries*

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination, excluding acquired from parties under common control, measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

##### *B) Transactions eliminated on consolidation*

Intercompany balances and transactions and any unrealized gains arising from intercompany transactions, are eliminated in preparing these consolidated financial statements; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

**Transfers of businesses from parties under common control.** The Group was formed by the combination of a number of businesses under common control. Contributions to share capital of shares in subsidiaries (businesses) from parties under common control are accounted for using predecessors basis of accounting. Business combinations arising from transfers of control interests in entities that are under common control are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities of the subsidiaries transferred under common control are accounted for at the predecessor entity's carrying amounts. Because of the consequent use of the predecessor basis of accounting, the principal component of the net equity recognised for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Any difference between the carrying amount of net assets and the nominal value of share capital contributed and share premium is accounted for in these consolidated financial statements as retained earnings.



**Foreign currency.** Monetary assets and liabilities, held by the Group and denominated in foreign currencies at the reporting date, are translated into RR at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of the monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss.

The official Russian Rouble to US dollar exchange rates as determined by the Central Bank of the Russian Federation were 72.8827 and 56.2584 as at 31 December 2015 and 31 December 2014, respectively. The official RR to EURO exchange rates as determined by the Central Bank of the Russian Federation were 79.6972 and 68.3427 as at 31 December 2015 and 31 December 2014, respectively.

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

**Property, plant and equipment.** Following the predecessor basis of accounting in business combinations property, plant and equipment were recognized at the carrying value determined in accordance with IFRS by the predecessors. Property, plant and equipment include assets under construction for future use as property, plant and equipment.

Property, plant and equipment are stated at depreciated cost less impairment. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the consolidated statement of profit or loss. An impairment loss recognised in prior years is reversed if there has been an increase in the estimated fair value or value in use used to determine an asset's recoverable amount.

Renewals and improvements are capitalised and the assets replaced are retired. The cost of repair and maintenance is expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in the consolidated statement of profit or loss as incurred.

Social assets are not capitalised as they are not expected to result in future economic benefits to the Group. Costs associated with a fulfilment of the Group's social responsibilities are expensed as incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated remaining useful lives. Assets under construction are not depreciated.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period.

The remaining useful lives, in years, are as follows:

| Classes of property, plant and equipment | 31 December 2015 | 31 December 2014<br>(Restated) |
|------------------------------------------|------------------|--------------------------------|
| Production buildings                     | 21-38            | 22-39                          |
| Constructions                            | 3-36             | 4-30                           |
| Energy machinery and equipment           | 5-36             | 6-27                           |
| Other machinery and equipment            | 1-16             | 1-17                           |
| Other                                    | 1-14             | 1-15                           |

Purchases of property, plant and equipment are shown net of VAT within investing activities in consolidated statement of cash flows.

**Financial instruments - key measurement terms.** Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

**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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.



Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

The Group classified assets and liabilities on the basis of an appropriate level of hierarchy of fair value as it is stated above (Note 29).

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

**Classification of financial assets.** The Group classifies its financial assets into the following categories: loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition depending on the purpose of purchase and nature of the instrument.

(a) *Loans and receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payment terms, which are not quoted on an active market. These assets are included into the current assets except when the maturity is greater than 12 months after the reporting date. These assets are classified as non-current assets.

(b) *Available-for-sale investments.* Available-for-sale financial assets include investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

**Initial recognition of financial instruments.** All financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions involving a similar instrument or by a valuation technique whose inputs include data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is

the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

**Derecognition of financial assets.** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

**Available-for-sale investments.** Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive a dividend is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

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

**Cash and cash equivalents.** Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

**Trade and other receivables.** Trade and other receivables are recorded inclusive of value added taxes. Financial trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. In practice, the entity has estimated that the nominal amount of trade and other receivables approximates the fair value at inception. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate for similar borrowers. The carrying amount of the asset is reduced through the use of an impairment provision account, and the amount of the loss is recognised in the consolidated statement of profit or loss within operating expenses. When a receivable is uncollectible, it is written off against the impairment provision account for receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statement of profit or loss.

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

**Derecognition of non-derivative financial liabilities.** The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings and trade and other payables.

**Trade and other payables and accrued charges.** Trade and other payables are stated inclusive of value added tax. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. If trade and other payables are restructured and the discounted present value of the cash flows under the restructured terms discounted using the original effective interest rate differs by more than ten percent from the discounted present value of the remaining cash flows of the original financial liability, then the fair value of the restructured payable is measured as the discounted present value of the cash flows under the restructured terms. In this case the amount of the discount is credited to the consolidated statement of profit or loss (finance costs) as a gain on restructuring, and the non-current portion of the discounted payable is classified as other non-current liabilities. The discount is amortized as interest expense.

**Share capital.** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

**Treasury shares.** Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

**Debt.** Debt is recognized initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortized cost using the effective yield method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the debt obligation.

**Capitalization of borrowing costs.** Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset. Other borrowing costs are recognised as an expense using the effective interest method.

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

The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Interest payments capitalised as part of the cost of an assets are classified as cash outflows from financing activities.

**Environmental liabilities.** Liabilities for environmental remediation are recorded where there is a present legal or constructive obligation as a result of past events, the payment is probable and reliable estimates can be made.

**Value added tax on purchases and sales (VAT).** Output VAT related to sales is payable to tax authorities on the earlier of (a) receipt of advance from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable by each taxpayer of the Group against output VAT upon receipt of goods or services and the respective VAT invoice. Input VAT from advances paid to suppliers after 1 January 2009 is recoverable upon advance payment provided the receipt of respective VAT invoice.

The tax authorities permit the settlement of VAT on net basis. VAT related to sales and purchases is recognized in the statement of financial position at nominal value on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

In the consolidated statement of cash flows purchase of property, plant and equipment and proceeds from sale of property, plant and equipment are presented without VAT.

**Inventories.** Inventories are valued at the lower of net realizable value and weighed average acquisition cost. Write-down is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

**Intangible assets.** The Group's intangible assets have definite useful lives and primarily include capitalised computer software and licences. Acquired computer software and licences, are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. Maintenance costs associated with computer software are expensed when incurred. Capitalised computer software is amortised on a straight line basis over estimated remaining useful lives.

Intangible assets are reviewed for impairment whenever the events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The remaining useful lives, in years, are as follows:

| Classes of intangible assets | 31 December 2015 | 31 December 2014 |
|------------------------------|------------------|------------------|
| SAP software                 | 2-11             | 7-12             |
| Other intangibles            | 1-12             | 2-12             |

**Income tax.** Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current period. Taxable profit differs from net profit as reported in the statement of profit or loss 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. Taxes other than on income are recorded within operating expenses.

Deferred tax is provided using the balance sheet liability method for the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit or loss. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities

relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

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

**Prepayments / Advances paid.** Prepayments/advances paid are carried at cost less provision for impairment. A prepayment/advance paid is classified as non-current when the goods or services relating to the prepayment/advance paid are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments/ advances paid to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Advances paid to capital contractors and to acquire intangible assets are included into carrying amount of construction in progress balance of property, plant and equipment and intangible assets balance, respectively, excluding related input VAT. Input VAT from the advances paid to capital contractors and to acquire intangible assets is included into carrying amount of other non-current assets if expected date of input VAT recovery after one year. If input VAT recovery is expected within one year, it is recognized as trade and other receivables. The input VAT is stated at its nominal value. Other prepayments/advances paid offset when the goods or services relating to the prepayments/advances are received. If there is an indication that the assets, goods or services relating to a prepayment/advances paid will not be received, the carrying value of the prepayment advance paid is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

**Restoration provision.** Estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of the item when an item is acquired. Changes in the measurement of an existing asset retirement obligation result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate. These changes adjust the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss.

The Group has an obligation to restore the surface of ash dumps when they are full (Note 17).

**Finance leases.** Where the Group is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of future finance charges, are included in debts. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the statement of profit or loss over the lease period using the effective interest method.

**Operating leases.** Management applies judgment in determining whether to account for lease agreements as finance or operating leases. In the application of this judgment, management makes assessment of various factors including which party carries the risks and rewards of ownership, the extent of the lease term and whether early termination clauses can be exercised by the counterparties to the lease.

Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income.

**Pension, post-employment and other long-term benefits.** In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses in the consolidated statement of profit or loss.



Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the reporting date. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related retirement benefit obligations.

Remeasurements of the net defined benefit liability comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions. Remeasurements are recognised immediately in other comprehensive income. Remeasurements for other long-term benefits are recognised immediately in profit and loss.

A past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. Past service cost is recognised immediately as soon as the pension plan conditions are changed. A curtailment of pension plan occurs when there is a significant reduction in the number of employees covered by the plan. A curtailment gain or loss gives rise to past service cost and as such it is recognised when it occurs.

**Share-based payments.** The General Meeting of Company's Shareholders may decide to pay additional remuneration to members of the Board of Directors for their performance in the form of treasury shares held by the Company. Additional remuneration by treasury shares is paid based on the market value of the shares being their weighted average price which is calculated by the securities market operator (stock exchange) based on the organized trade results on the date of payment.

**Revenue recognition.** Revenue is recognized on the delivery of electricity, capacity, heat and provision of other services during the period. Revenues from sales of non-utility goods are recognised at the point of transfer of risks and rewards of ownership of the goods.

Revenues are measured at the fair value of consideration received or receivable. Revenue amounts are represented exclusive of value added tax.

**Segment reporting.** Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker.

The primary activity of the Group is production of electric and heat power and capacity. Operating segments are operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the operating decision-making body which is represented by the Company's Management Board. The Management Board of the Company controls and allocates economic resources of the Group between segments and evaluates segment's operating efficiency. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The Group discloses seven reporting segments. Other segments are included in other operating segments based on quantitative criteria.

**Earnings per share.** The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

#### **Note 6. Related Parties**

Information on transactions and balances with related parties is presented below. All transactions were made in Russian Federation and in Russian Roubles. Transactions with related parties have been made mostly on the same terms and conditions as similar operations with the parties external to the Group. Prices for natural gas and heat are based on tariffs set by FAS, prices for electricity and capacity are based on tariffs set by FAS and also based on competitive take-off on the wholesale electricity (capacity) market. Loans are granted at market rates. Bank deposits are invested at market rates.

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2015**

(in thousands of Russian Roubles unless noted otherwise)

**Transactions with Gazprom Group and its associates**

Transactions with Gazprom Group and its associates were as follows:

|                                                 | Year ended<br>31 December 2015 | Year ended<br>31 December 2014<br>(Restated) |
|-------------------------------------------------|--------------------------------|----------------------------------------------|
| Sales of electricity and capacity               | 1,638,285                      | 1,674,772                                    |
| Other sales                                     | 120,375                        | 142,961                                      |
| Interest income on cash and cash equivalents    | 271,899                        | 467,743                                      |
| Other income                                    | 10,080                         | 1,717                                        |
| Purchases of gas                                | 33,288,893                     | 35,736,099                                   |
| Other purchases                                 | 12,927,690                     | 7,577,313                                    |
| Other expenses                                  | 5,964                          | 3,014                                        |
| Interest expense under finance lease agreements | 8,534                          | 20,437                                       |
| Accrued interest on the loans                   | 4,539,705                      | 3,157,332                                    |

Balances with Gazprom Group and its associates were as follows:

|                                                                                                                                                | 31 December 2015 | 31 December 2014<br>(Restated) |
|------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------------------------|
| Long-term loan issued (Note 9)                                                                                                                 | 105,999          | -                              |
| Cash and cash equivalents (Note 10)                                                                                                            | 4,930,957        | 13,014,013                     |
| Trade and other receivables                                                                                                                    | 941,382          | 814,486                        |
| Promissory notes Bank GPB (JSC) (Note 11)                                                                                                      | 89,955           | 615,800                        |
| <small>(nominal value of promissory notes is RR 97,500 thousand as at 31 December 2015 and RR 633,936 thousand as at 31 December 2014)</small> |                  |                                |
| Debt                                                                                                                                           | 48,477,880       | 50,850,475                     |
| Trade and other payables                                                                                                                       | 4,960,918        | 6,683,338                      |

**Transactions with state-controlled entities and its associates other than Gazprom Group**

In the normal course of business the Group enters into transactions with other entities under Government control (in addition to transactions with Gazprom Group), including sales of electricity and capacity, heat, purchases of electricity and capacity resources, services and other transactions. These transactions (except for sales of electricity and capacity, electricity transit, building and construction works and loans received) are not significant either individually or collectively.

Significant transactions with the state-controlled entities were as follows:

|                                                           | Year ended<br>31 December 2015 | Year ended<br>31 December 2014<br>(Restated) |
|-----------------------------------------------------------|--------------------------------|----------------------------------------------|
| Sales of electricity and capacity                         | 15,238,078                     | 12,861,048                                   |
| Charge of provision for impairment of trade receivables   | 246,267                        | 807,947                                      |
| Reversal of provision for impairment of trade receivables | (1,390,787)                    | (348,963)                                    |
| Interest income on cash and cash equivalents              | 503,811                        | 267,187                                      |
| Building and construction works                           | 11,722,923                     | 15,777,084                                   |
| Electricity transit (Note 23)                             | 1,313,342                      | 1,455,724                                    |
| Interest expense on loans                                 | 445,072                        | 241,136                                      |



**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2015**

(in thousands of Russian Roubles unless noted otherwise)

Significant balances with the state-controlled entities were as follows:

|                                                         | 31 December 2015 | 31 December 2014<br>(Restated) |
|---------------------------------------------------------|------------------|--------------------------------|
| Trade and other receivables, gross                      | 8,227,218        | 11,195,272                     |
| Provision for impairment of trade and other receivables | (3,373,894)      | (3,578,067)                    |
| Cash and cash equivalents (Note 10)                     | 899,134          | 1,419                          |
| Trade and other payables                                | 3,225,050        | 3,179,620                      |
| Debt                                                    | 10,473,307       | 2,873,307                      |

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with Joint-stock company "Financial Settling Center" (JSC "FSC"). Current financial settlement system of JSC "FSC" does not provide the final counterparty with automated information about transactions and settlement balances with end consumers. Government-related entities, Gazprom Group and its subsidiaries may also act as counterparties.

The Group had the following significant transactions with JSC "FSC":

|                          | Year ended<br>31 December 2015 | Year ended<br>31 December 2014 |
|--------------------------|--------------------------------|--------------------------------|
| Sales of electricity     | 61,968,276                     | 65,988,839                     |
| Purchases of electricity | (9,934,321)                    | (10,594,793)                   |

The Group had the following significant balances with JSC "FSC":

|                             | 31 December 2015 | 31 December 2014 |
|-----------------------------|------------------|------------------|
| Trade and other receivables | 3,006,692        | 3,016,740        |
| Trade and other payables    | 527,161          | 663,555          |

**Transactions with key management**

Compensation is paid to members of the Management Board of the Company for their services in full time management positions. The compensation is made up of a contractual salary and a performance bonus depending on results for the period according to Russian statutory financial results of the Company. The compensation is approved by the Board of Directors. Discretionary bonuses are also payable to members of the Management Board, which are approved by the Chairman of the Management Board according to his perception of the value of their contribution.

Fees, compensation or allowances to the members of the Board of Directors for attending Board meetings are paid depending on results for the year.

Total remuneration accrued to the members of the Board of Directors and Management Board is presented below:

|                                                              | Year ended<br>31 December 2015 |                     | Year ended<br>31 December 2014 |                     |
|--------------------------------------------------------------|--------------------------------|---------------------|--------------------------------|---------------------|
|                                                              | Expenses                       | Accrued liabilities | Expenses                       | Accrued liabilities |
| Remuneration                                                 | 107,188                        | 3,872               | 125,812                        | 3,334               |
| Additional remuneration paid<br>by treasury shares (Note 13) | 27,535                         | -                   | 21,911                         | -                   |
| Social funds contribution                                    | 17,886                         | -                   | 13,394                         | -                   |
| Medical insurance                                            | 3,749                          | -                   | 1,631                          | -                   |
| Retirement benefit obligations                               | 987                            | 19,467              | 1,589                          | 24,095              |

**Transactions with other related parties**

Transactions with other related parties represent transactions with the non-state pension funds ("NPF"). For the year ended 31 December 2015 the Group made contributions of RR 85,374 thousand to NPF Electroenergetiki and NPF GAZFOND (for the year ended 31 December 2014: RR 89,623 thousand).

**OGK-2 Group**
**Notes to Consolidated Financial Statements for the year ended 31 December 2015**

(in thousands of Russian Roubles unless noted otherwise)

**Note 7. Property, plant and equipment**

|                                                        | Production buildings | Constructions | Energy machinery and equipment | Other machinery and equipment | Other       | Construction in progress | Total        |
|--------------------------------------------------------|----------------------|---------------|--------------------------------|-------------------------------|-------------|--------------------------|--------------|
| <b>Cost</b>                                            |                      |               |                                |                               |             |                          |              |
| Opening balance as at 1 January 2015 (Restated)        | 42,825,109           | 23,130,598    | 54,944,642                     | 19,905,726                    | 1,814,433   | 83,574,682               | 226,195,190  |
| Additions                                              | 189                  | -             | -                              | 54,317                        | 193,646     | 29,215,500               | 29,463,652   |
| Transfer                                               | 2,309,705            | 3,701,082     | 18,276,849                     | 5,127,917                     | 84,339      | (29,499,892)             | -            |
| Disposals                                              | (6,828)              | (370,414)     | (97,022)                       | (70,475)                      | (63,078)    | (4,641,612)              | (5,249,429)  |
| Closing balance as at 31 December 2015                 | 45,128,175           | 26,461,266    | 73,124,469                     | 25,017,485                    | 2,029,340   | 78,648,678               | 250,409,413  |
| <b>Accumulated depreciation (including impairment)</b> |                      |               |                                |                               |             |                          |              |
| Opening balance as at 1 January 2015 (Restated)        | (19,522,533)         | (12,440,851)  | (22,168,683)                   | (9,162,645)                   | (1,257,734) | (1,058,793)              | (65,611,239) |
| Charge for the period                                  | (1,218,742)          | (908,735)     | (2,675,157)                    | (1,655,307)                   | (77,472)    | -                        | (6,535,413)  |
| Disposals                                              | 6,770                | 319,020       | 89,608                         | 66,058                        | 62,368      | 11,047                   | 554,871      |
| Transfer                                               | -                    | -             | (92,089)                       | -                             | -           | 92,089                   | -            |
| Charge of impairment                                   | (3,603)              | (28,559)      | (343,739)                      | (13,341)                      | (1,065)     | (31,306)                 | (421,613)    |
| Reversal of impairment                                 | -                    | -             | -                              | -                             | -           | 1,813                    | 1,813        |
| Closing balance as at 31 December 2015                 | (20,738,108)         | (13,059,125)  | (25,190,060)                   | (10,765,235)                  | (1,273,903) | (985,150)                | (72,011,581) |
| Net book value as at 31 December 2015 (Restated)       | 24,390,067           | 13,402,141    | 47,934,409                     | 14,252,250                    | 755,437     | 77,663,528               | 178,397,832  |
| Net book value as at 31 December 2014 (Restated)       | 23,302,576           | 10,689,747    | 32,775,959                     | 10,743,081                    | 556,699     | 82,515,889               | 160,583,951  |
| <b>Cost</b>                                            |                      |               |                                |                               |             |                          |              |
| Opening balance as at 1 January 2014 (Restated)        | 37,874,510           | 20,759,477    | 44,853,971                     | 15,089,273                    | 1,655,781   | 78,405,677               | 198,638,689  |
| Additions                                              | 36,809               | 1,441,473     | 3,779                          | 71,900                        | 19,273      | 26,251,328               | 27,824,562   |
| Transfer                                               | 4,951,748            | 961,205       | 10,099,666                     | 4,764,294                     | 172,861     | (20,949,774)             | -            |
| Disposals                                              | (37,958)             | (31,557)      | (12,774)                       | (19,741)                      | (33,482)    | (132,549)                | (268,061)    |
| Closing balance as at 31 December 2014 (Restated)      | 42,825,109           | 23,130,598    | 54,944,642                     | 19,905,726                    | 1,814,433   | 83,574,682               | 226,195,190  |
| <b>Accumulated depreciation (including impairment)</b> |                      |               |                                |                               |             |                          |              |
| Opening balance as at 1 January 2014 (Restated)        | (16,704,396)         | (10,902,911)  | (19,309,536)                   | (7,458,166)                   | (1,090,662) | (284,147)                | (55,749,818) |
| Charge for the period                                  | (713,849)            | (833,873)     | (2,092,030)                    | (1,323,768)                   | (119,894)   | -                        | (5,083,414)  |
| Disposals                                              | 17,061               | 26,485        | 9,381                          | 18,352                        | 33,140      | -                        | 104,419      |
| Charge of impairment                                   | (2,121,349)          | (730,552)     | (776,498)                      | (399,063)                     | (80,318)    | (774,751)                | (4,882,531)  |
| Reversal of impairment                                 | -                    | -             | -                              | -                             | -           | 105                      | 105          |
| Closing balance as at 31 December 2014 (Restated)      | (19,522,533)         | (12,440,851)  | (22,168,683)                   | (9,162,645)                   | (1,257,734) | (1,058,793)              | (65,611,239) |
| Net book value as at 31 December 2014 (Restated)       | 23,302,576           | 10,689,747    | 32,775,959                     | 10,743,081                    | 556,699     | 82,515,889               | 160,583,951  |
| Net book value as at 1 January 2014 (Restated)         | 21,170,114           | 9,856,566     | 25,544,435                     | 7,631,107                     | 565,119     | 78,121,530               | 142,888,871  |

## **OGK-2 Group**

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

(in thousands of Russian Roubles unless noted otherwise)

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In the 4th quarter of 2014 in accordance with capacity supply contracts (CSC) was put into operation Object number 4 (PGU-420), construction of combined cycle power on the territory of the Cherepovetskaya GRES. In the 4th quarter of 2015 commissioned the following CSC objects: the Object number 2 (PGU-420), construction of combined cycle power on the territory of the Serovskaya GRES (capacity increased by 420 MW) and the Object number 5 (PSU-330), reconstruction of the coal-fired power with replacement of basic equipment on the territory of Ryazanskaya GRES (power increased by 60 MW).

Construction in progress as at 31 December 2015 and 31 December 2014 includes advances for property, plant and equipment in the amount of RR 3,066,563 thousand and RR 10,459,206 thousand respectively.

As at 31 December 2015 the advances given to major contractors recorded within construction in progress are: LLC "PF "VIS" for construction of a power unit on site of Novocherkasskaya GRES amounted to RR 1,453,816 thousand (net of VAT), LLC "QUARTZ-Novie Technologii" to build a power unit on site of Troitskaya GRES amounted to RR 1,161,991 thousand (net of VAT) (as at 31 December 2014: RR 1,115,328 thousand (net of VAT) LLC "PF "VIS", RR 3,918,185 thousand (net of VAT) LLC "QUARTZ-Novie Technologii", RR 4,738,554 thousand (net of VAT) JSC "E4 Group"). The respective input VAT is recognised within trade and other receivables (Note 11).

The return of the advance payments made to LLC "QUARTZ-Novie Technologii" to secure the contractor's obligations under the general construction contract with the Group as at 31 December 2015 in the amount of RR 12,672,692 thousand was guaranteed by the contract of pledge of property rights by LLC "QUARTZ-Novie Technologii" (as at 31 December 2014: RR 12,672,692 thousand by LLC "QUARTZ-Novie Technologii").

For the year ended 31 December 2015 the Group capitalized borrowing costs attributable to the acquisition, construction or production of an asset in the amount of RR 4,033,431 thousand (for the year ended 31 December 2014 (Restated): RR 3,117,252 thousand), with an average capitalisation rate of 8.43% (for the year ended 31 December 2014 (Restated): 8.23%).

The amount of ash dump restoration costs capitalised within the group "Constructions" (Note 17) is RR 1,170,177 thousand as at 31 December 2015 (as at 31 December 2014: RR 1,336,281 thousand).

#### ***Impairment***

Management determined whether there was any indication of impairment of the Group's property, plant and equipment as at 31 December 2015. The key indicators of impairment were significant changes in Russian economy in 2015 with an adverse effect on the Group.

For the purposes of impairment test assets of the Group were grouped into 12 cash-generating units. Each power station of the Group was considered as separate cash-generating unit: Troitskaya GRES, Stavropolskaya GRES, Serovskaya GRES, Surgutskaya GRES-1, Kirishskaya GRES, Krasnoyarskaya GRES-2, Novocherkasskaya GRES each of which is a separate reportable segment and, Ryazanskaya GRES, Cherepovetskaya GRES, Pskovskaya GRES, Adlerskaya TES, LLC "OGK-Investproekt" which included in other operating segments of the Group (Note 30).

Impairment test was conducted by comparing carrying amount of property, plant and equipment with the recoverable amount.

The majority of the Group's property, plant and equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business. Consequently, the recoverable amount of property, plant and equipment was primarily determined using discounted cash-flows method. The present value of the future cash flows of each cash-generating unit was calculated based on the projected future net cash flows using certain assumptions.

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The following key assumptions were used when the cash flow testing was performed as at 31 December 2015:

|                                                                      |                                                                                                                                                                                                                                                                          |
|----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Discount rate before tax (based on weighted average cost of capital) | 2016-2017 – 18.34%, starting from 2018 – 15.56%                                                                                                                                                                                                                          |
| Forecast of electricity and capacity prices in competitive market    | 2016-2018 - the Company's management forecast based on parameters of Ministry of Economic Development of the Russian Federation<br>2019-2020 - based on the forecast growth of energy prices according to the Ministry of Economic Development of the Russian Federation |
| Forecast of electricity and capacity volumes                         | Based on the Company's management assessment of future trends in the business                                                                                                                                                                                            |

As a result of the impairment test impairment loss was recognised for certain cash-generating units. The total impairment loss of RR 311,693 thousand was recognised within operating expenses of consolidated statement of profit and loss for the year ended 31 December 2015, the loss relates to the following cash-generating units:

- Cherepovetskaya GRES - in the amount of RR 290,561 thousand;
- Pskovskaya GRES - in the amount of RR 21,132 thousand.

The calculation of the recoverable amounts from cash-generating units is highly sensitive to the pre-tax discount rate and change of forecasted tariffs: a change in one or more key assumptions using real possible alternative assumptions leads to a significant change in the recoverable amount of property, plant and equipment. If the pre-tax discount rate was 1 percent higher in the forecasted period, there would be total impairment loss of RR 701,148 thousand recognised for the year ended 31 December 2015. If the electricity tariffs were 5 percent lower in the forecasted period, there would be total impairment loss of RR 2,505,400 thousand recognised for the year ended 31 December 2015.

In addition, the impairment provision was charged in relation to property, plant and equipment for which currently there are no plans for further use and to the assets under construction that have been indefinitely suspended for further construction and are not included in the Group's investment program (Note 27) in the amount of RR 109,920 thousand.

Thus, the impairment provision balance in relation to property, plant and equipment and assets under construction is included in accumulated depreciation as at 31 December 2015 in the amount of RR 5,575,325 thousand (as at 31 December 2014: RR 5,166,573 thousand).

**Finance lease**

The Group leased certain equipment under a number of finance lease agreements. At the end of the leases the Group has the option to purchase the equipment at a price significantly lower its fair value. The net book value of leased property, plant and equipment is presented below:

|                                | <b>31 December 2015</b> | <b>31 December 2014</b> |
|--------------------------------|-------------------------|-------------------------|
| Energy machinery and equipment | 32,746                  | 36,340                  |
| Other machinery and equipment  | 144,070                 | 172,464                 |
| Other                          | 108,649                 | 181,909                 |
| <b>Total</b>                   | <b>285,465</b>          | <b>390,713</b>          |

The leased equipment is pledged as a security for the lease obligation.

**Operating lease**

The Group leases a number of land plots owned by local governments and other assets under operating leases. Lease payments are determined by lease agreements. Lease agreements are concluded for the different periods. Part of the lease contracts is concluded for a year with right of future prolongation, maximum lease period is 49 years. Lease payments are reviewed regularly to reflect market rentals.

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

(in thousands of Russian Roubles unless noted otherwise)

Operating lease rentals are payable as follows:

|                                                    | 31 December 2015 | 31 December 2014<br>(Restated) |
|----------------------------------------------------|------------------|--------------------------------|
| Not later than one year                            | 2,522,748        | 3,198,523                      |
| Later than one year and not later than five years  | 468,922          | 1,057,250                      |
| Later than five years and not later than ten years | 344,231          | 956,197                        |
| Later than ten years                               | 2,493,056        | 4,125,016                      |
| <b>Total</b>                                       | <b>5,828,957</b> | <b>9,336,986</b>               |

**Note 8. Intangible assets**

|                                                             | SAP software     | Other<br>intangibles | Total intangible<br>assets |
|-------------------------------------------------------------|------------------|----------------------|----------------------------|
| <b>Cost</b>                                                 |                  |                      |                            |
| <b>Balance as at 1 January 2015 (Restated)</b>              | <b>1,357,392</b> | <b>473,964</b>       | <b>1,831,356</b>           |
| Additions                                                   | -                | 22,359               | 22,359                     |
| Transfer                                                    | 36,523           | (36,523)             | -                          |
| Disposals                                                   | (114,858)        | (61,785)             | (176,643)                  |
| <b>Balance as at 31 December 2015</b>                       | <b>1,279,057</b> | <b>398,015</b>       | <b>1,677,072</b>           |
| <b>Amortisation</b>                                         |                  |                      |                            |
| <b>Balance as at 1 January 2015 (Restated)</b>              | <b>(309,979)</b> | <b>(142,100)</b>     | <b>(452,079)</b>           |
| Charge for the period                                       | (217,852)        | (79,176)             | (297,028)                  |
| Transfer                                                    | (6,390)          | 6,390                | -                          |
| Disposals                                                   | 114,858          | 61,785               | 176,643                    |
| <b>Balance as at 31 December 2015</b>                       | <b>(419,363)</b> | <b>(153,101)</b>     | <b>(572,464)</b>           |
| <b>Net book value as at 31 December 2015</b>                | <b>859,694</b>   | <b>244,914</b>       | <b>1,104,608</b>           |
| <b>Net book value as at 31 December 2014<br/>(Restated)</b> | <b>1,047,413</b> | <b>331,864</b>       | <b>1,379,277</b>           |

|                                                             | SAP software     | Other<br>intangibles | Total intangible<br>assets |
|-------------------------------------------------------------|------------------|----------------------|----------------------------|
| <b>Cost</b>                                                 |                  |                      |                            |
| <b>Balance as at 1 January 2014 (Restated)</b>              | <b>1,368,534</b> | <b>415,498</b>       | <b>1,784,032</b>           |
| Additions                                                   | -                | 86,746               | 86,746                     |
| Disposals                                                   | (11,142)         | (28,280)             | (39,422)                   |
| <b>Balance as at 31 December 2014 (Restated)</b>            | <b>1,357,392</b> | <b>473,964</b>       | <b>1,831,356</b>           |
| <b>Amortisation</b>                                         |                  |                      |                            |
| <b>Balance as at 1 January 2014 (Restated)</b>              | <b>(138,540)</b> | <b>(101,246)</b>     | <b>(239,786)</b>           |
| Charge for the period                                       | (171,439)        | (68,996)             | (240,435)                  |
| Disposals                                                   | -                | 28,142               | 28,142                     |
| <b>Balance as at 31 December 2014 (Restated)</b>            | <b>(309,979)</b> | <b>(142,100)</b>     | <b>(452,079)</b>           |
| <b>Net book value as at 31 December 2014<br/>(Restated)</b> | <b>1,047,413</b> | <b>331,864</b>       | <b>1,379,277</b>           |
| <b>Net book value as at 1 January 2014<br/>(Restated)</b>   | <b>1,229,994</b> | <b>314,252</b>       | <b>1,544,246</b>           |

There are no advances paid to suppliers of intangible assets at 31 December 2015 and 31 December 2014.

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

(in thousands of Russian Roubles unless noted otherwise)

**Note 9. Other non-current assets**

|                                                                                                                                                                                                                                                                                                            | Notes | 31 December<br>2015 | 31 December<br>2014<br>(Restated) |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|---------------------|-----------------------------------|
| Long-term promissory notes<br>(nominal value of promissory notes is RR 570,027 thousand as at 31 December 2015 and RR 594,889 thousand as at 31 December 2014)                                                                                                                                             | 11    | 294,729             | 300,227                           |
| Long-term loan issued                                                                                                                                                                                                                                                                                      | 6     | 105,999             | -                                 |
| Long-term restructured trade and other receivables<br>(net of provision for impairment of RR 5,326 thousand as at 31 December 2015 and RR 6,700 thousand as at 31 December 2014, and the effect of discounting of RR 10,623 thousand as at 31 December 2015 and RR 19,462 thousand as at 31 December 2014) | 11    | 17,341              | 27,971                            |
| <b>Financial assets</b>                                                                                                                                                                                                                                                                                    |       | <b>418,069</b>      | <b>328,198</b>                    |
| Deposits for pensions                                                                                                                                                                                                                                                                                      | 16    | 549,428             | 662,700                           |
| Long-term input VAT from advances paid                                                                                                                                                                                                                                                                     | 11    | 4,181               | 4,433                             |
| Other                                                                                                                                                                                                                                                                                                      |       | 6,654               | 6,654                             |
| <b>Total</b>                                                                                                                                                                                                                                                                                               |       | <b>978,332</b>      | <b>1,001,985</b>                  |

**Note 10. Cash and cash equivalents**

|                                                  | Currency | 31 December 2015 | 31 December 2014<br>(Restated) |
|--------------------------------------------------|----------|------------------|--------------------------------|
| Current bank accounts                            | RR       | 5,018,377        | 13,057,156                     |
| Bank deposits with maturity three months or less | RR       | 1,869,737        | 218,800                        |
| Bank deposits with maturity three months or less | USD      | 656,216          | -                              |
| Other cash equivalents                           | RR       | 39               | 75                             |
| <b>Total</b>                                     |          | <b>7,544,369</b> | <b>13,276,031</b>              |

The Group has current bank accounts in the following banks:

| Cash in bank              | Credit rating on<br>31 December 2015* | 31 December<br>2015 | Credit rating on<br>31 December 2014* | 31 December<br>2014<br>(Restated) |
|---------------------------|---------------------------------------|---------------------|---------------------------------------|-----------------------------------|
| Bank GPB (JSC)            | b1 / Negative                         | 4,891,957           | ba3 / Negative                        | 12,795,213                        |
| "BANK "ROSSIYA"           | WR / Ratings<br>Withdrawn             | 122,480             | WR / Ratings<br>Withdrawn             | 260,522                           |
| Sberbank                  | ba2 / Negative                        | 3,409               | ba1 / Negative                        | 1,356                             |
| JSC VTB Bank              | b1 / Negative                         | 509                 | ba3 / Stable                          | 63                                |
| AO "ALFA-BANK"            | ba3 / Negative                        | 22                  | ba2 / Stable                          | 2                                 |
| <b>Total cash in bank</b> |                                       | <b>5,018,377</b>    |                                       | <b>13,057,156</b>                 |

\* Baseline Credit Assessment / the outlook on all of the bank's ratings, determined by Moody's Investor Service.

Due to the fact that Moody's Investors Service has ceased to give Bank Financial Strength Ratings, the Group leads baseline credit assessment of Moody's Investors Service. The Bank Financial Strength Ratings at 31 December 2014 are translated at the official scale of Moody's Investors Service.

**OGK-2 Group**
**Notes to Consolidated Financial Statements for the year ended 31 December 2015**

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Credit quality of bank deposits is presented below:

| Bank deposits with maturity of three months or less              | Currency | Interest rate | Credit rating on 31 December 2015* | 31 December 2015 | Currency | Interest rate | Credit rating on 31 December 2014* | 31 December 2014 (Restated) |
|------------------------------------------------------------------|----------|---------------|------------------------------------|------------------|----------|---------------|------------------------------------|-----------------------------|
| "BANK "ROSSIYA"                                                  | RR       | 9.00%         | Non-Prime                          | 1,451,737        | -        | -             | -                                  | -                           |
| Sberbank                                                         | USD      | 0.42%         | Non-Prime                          | 656,216          | -        | -             | -                                  | -                           |
| JSC VTB Bank                                                     | RR       | 10.80%        | Non-Prime                          | 239,000          | -        | -             | -                                  | -                           |
| AO "ALFA-BANK"                                                   | RR       | 9.00%         | Non-Prime                          | 140,000          | -        | -             | -                                  | -                           |
| Bank GPB (JSC)                                                   | RR       | 10.80%        | Non-Prime                          | 39,000           | RR       | 16.00%        | Non-Prime                          | 218,800                     |
| <b>Total bank deposits with maturity of three months or less</b> |          |               |                                    | <b>2,525,953</b> |          |               |                                    | <b>218,800</b>              |

\* Short-term rating of domestic currency deposits, determined by Moody's Investors Service.

**Note 11. Trade and other receivables**

|                                                                                                                                                                                                                                                              | Notes | 31 December 2015  | 31 December 2014 (Restated) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------------------|-----------------------------|
| <b>Trade receivables</b>                                                                                                                                                                                                                                     |       | <b>9,849,372</b>  | <b>8,873,905</b>            |
| (net of provision for impairment of RR 5,203,572 thousand as at 31 December 2015 and RR 6,401,767 thousand as at 31 December 2014, and the effect of discounting of RR 0 thousand as at 31 December 2015 and RR 3,528 thousand as at 31 December 2014)       |       |                   |                             |
| <b>Other receivables</b>                                                                                                                                                                                                                                     |       | <b>3,837,149</b>  | <b>1,659,779</b>            |
| (net of provision for impairment of RR 3,562,290 thousand as at 31 December 2015 and RR 1,247,635 thousand as at 31 December 2014, and the effect of discounting of RR 10,819 thousand as at 31 December 2015 and RR 16,130 thousand as at 31 December 2014) |       |                   |                             |
| <b>Promissory notes</b>                                                                                                                                                                                                                                      |       | <b>457,930</b>    | <b>886,675</b>              |
| (nominal value of promissory notes is RR 743,489 thousand as at 31 December 2015 and RR 1,193,758 thousand as at 31 December 2014)                                                                                                                           |       |                   |                             |
| <b>Interest receivable</b>                                                                                                                                                                                                                                   |       | <b>9,046</b>      | <b>50,042</b>               |
| <b>Financial assets</b>                                                                                                                                                                                                                                      |       | <b>14,153,497</b> | <b>11,470,401</b>           |
| <b>Input VAT</b>                                                                                                                                                                                                                                             |       | <b>609,682</b>    | <b>1,518,855</b>            |
| <b>Prepaid other taxes and social funds contribution</b>                                                                                                                                                                                                     |       | <b>1,024,650</b>  | <b>1,125,086</b>            |
| <b>Advances to suppliers</b>                                                                                                                                                                                                                                 |       | <b>486,890</b>    | <b>1,036,107</b>            |
| (net of provision for impairment of RR 691 thousand as at 31 December 2015 and RR 14,136 thousand as at 31 December 2014)                                                                                                                                    |       |                   |                             |
| <b>Total</b>                                                                                                                                                                                                                                                 |       | <b>16,274,719</b> | <b>15,150,449</b>           |
| <b>Less:</b>                                                                                                                                                                                                                                                 |       |                   |                             |
| Long-term promissory notes                                                                                                                                                                                                                                   | 9     | (294,729)         | (300,227)                   |
| Long-term restructured trade and other receivables                                                                                                                                                                                                           | 9     | (17,341)          | (27,971)                    |
| Long-term input VAT from advances paid                                                                                                                                                                                                                       | 9     | (4,181)           | (4,433)                     |
| <b>Total</b>                                                                                                                                                                                                                                                 |       | <b>15,958,468</b> | <b>14,817,818</b>           |



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Breakdown of promissory notes is presented below:

| <b>Bank</b>                       | <b>Credit rating on<br/>31 December 2015*</b> | <b>31 December 2015</b> | <b>Credit rating on<br/>31 December 2014*</b> | <b>31 December 2014</b> |
|-----------------------------------|-----------------------------------------------|-------------------------|-----------------------------------------------|-------------------------|
| AO "ALFA-BANK"                    | ba3 / Negative                                | 288,534                 | ba2 / Stable                                  | 264,726                 |
| Bank GPB (JSC)                    | b1 / Negative                                 | 89,955                  | ba3 / Negative                                | 615,800                 |
| "BANK "ROSSIYA"                   | WR / Ratings<br>Withdrawn                     | 73,932                  | -                                             | -                       |
| Other                             | -                                             | 5,509                   | -                                             | 6,149                   |
| <b>Total promissory<br/>notes</b> |                                               | <b>457,930</b>          |                                               | <b>886,675</b>          |

\* The bank financial strength rating / the outlook on all of the bank's ratings, determined by Moody's Investor Service.

**Note 12. Inventories**

|                        | <b>31 December 2015</b> | <b>31 December 2014<br/>(Restated)</b> |
|------------------------|-------------------------|----------------------------------------|
| Fuel supplies          | 4,992,749               | 4,273,139                              |
| Spare parts            | 4,971,861               | 2,190,544                              |
| Materials and supplies | 979,060                 | 873,446                                |
| <b>Total</b>           | <b>10,943,670</b>       | <b>7,337,129</b>                       |

Inventories are presented net of provision for obsolescence of RR 38,961 thousand and RR 149,061 thousand as at 31 December 2015 and 31 December 2014, respectively.

**Note 13. Equity****Share capital in 2015**

| <b>Share capital</b>            | <b>Number of ordinary<br/>shares<br/>31 December 2015</b> | <b>Number of ordinary<br/>shares<br/>31 December 2014</b> |
|---------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|
| Issued shares                   | 110,441,160,870                                           | 110,441,160,870                                           |
| Treasury shares                 | (4,631,395,784)                                           | (4,741,836,939)                                           |
| <b>Total outstanding shares</b> | <b>105,809,765,086</b>                                    | <b>105,699,323,931</b>                                    |

Each ordinary share carries one vote.

As at 31 December 2015 and 31 December 2014 the number of authorised for issue but not issued ordinary shares is 58,886,766,090 shares.

**Dividends**

The Company's annual statutory accounts form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as net profit.

In June 2015 the Company declared final dividends for the year, ended 31 December 2014, in the amount of RR 0,00814151591815 per share for the total of RR 860,562 thousand. These dividends were recognized as liability and deducted from equity.

In September 2015 the Company recovered unclaimed dividends for 2012 in retained earnings in the amount of RR 583 thousand.

**Treasury shares**

On June 11, 2015 the Annual General Meeting of Shareholders of JSC "OGK-2" decided to pay an additional remuneration to the Board members elected by the Annual General Meeting of Shareholders on June 6, 2014, in the form of ordinary shares of JSC "OGK-2" held by JSC "OGK-2", in the total number of 110,441,155 shares. The payment of additional remuneration in the form of JSC "OGK-2" shares was

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carried at their market value of RR 27,535 thousand. The market value was defined as the shares' weighted average price calculated by the Russian organizer of trade in the securities market (stock exchange) based on the results of the organized trading on the date of payment. The difference of RR 161,198 thousand between the market value of the above shares and their carrying amount was recognized in retained earnings.

**Acquisition of entity under common control**

According to the Group's accounting policy assets and liabilities of subsidiary LLC "OGK-Investproekt" (Note 1) transferred between entities under common control are accounted for at the predecessor entity's carrying amounts. Difference between the amount of consideration transferred and net asset value of LLC "OGK-Investproekt" is recognized in financial statements as retained earnings in the amount of RR 708,991 thousand.

**Note 14. Income tax****Income tax charge**

|                                                      | Year ended<br>31 December 2015 | Year ended<br>31 December 2014<br>(Restated) |
|------------------------------------------------------|--------------------------------|----------------------------------------------|
| Current income tax charge                            | (158,854)                      | (1,170,664)                                  |
| Reversal / (accrual) of income tax for prior periods | 50,917                         | (22,391)                                     |
| Deferred income tax (expense) / benefit              | (677,364)                      | 279,846                                      |
| <b>Total income tax charge</b>                       | <b>(785,301)</b>               | <b>(913,209)</b>                             |

During the year ended 31 December 2015 the Group was subject to a 20% income tax rate on taxable profits (for the year ended 31 December 2014: 20%).

Reconciliation between the expected and the actual taxation charge is provided below:

|                                                                       | Year ended<br>31 December 2015 | Year ended<br>31 December 2014<br>(Restated) |
|-----------------------------------------------------------------------|--------------------------------|----------------------------------------------|
| <b>Profit / (loss) before tax</b>                                     | <b>3,381,924</b>               | <b>(655,316)</b>                             |
| Theoretical tax charge at the statutory tax rate of 20%               | (676,385)                      | 131,063                                      |
| Reversal / (accrual) of income tax for prior periods                  | 50,917                         | (22,391)                                     |
| Tax effects of items which are non-deductible for income tax purposes | (159,833)                      | (1,021,881)                                  |
| <b>Total income tax charge</b>                                        | <b>(785,301)</b>               | <b>(913,209)</b>                             |

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

**Deferred income tax liabilities**

|                                               | 31 December<br>2014<br>(Restated) | Movement for<br>the period<br>recognized in<br>profit and loss | Movement for<br>the period<br>recognized in<br>other<br>comprehensive<br>income | 31 December<br>2015 |
|-----------------------------------------------|-----------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------------------|---------------------|
| Property, plant and equipment                 | (7,133,099)                       | (816,500)                                                      | -                                                                               | (7,949,599)         |
| Provision for impairment of trade receivables | (154,011)                         | 91,018                                                         | -                                                                               | (62,993)            |
| Deposits for pensions                         | (132,540)                         | 22,654                                                         | -                                                                               | (109,886)           |
| Intangible assets                             | (11,491)                          | 5,992                                                          | -                                                                               | (5,499)             |
| Trade and other payables                      | -                                 | (3,643)                                                        | -                                                                               | (3,643)             |
| Other                                         | (9)                               | (31)                                                           | -                                                                               | (40)                |
| <b>Total</b>                                  | <b>(7,431,150)</b>                | <b>(700,510)</b>                                               | -                                                                               | <b>(8,131,660)</b>  |

**Deferred income tax assets**

|                                | 31 December<br>2014<br>(Restated) | Movement for<br>the period<br>recognized in<br>profit and loss | Movement for<br>the period<br>recognized in<br>other<br>comprehensive<br>income | 31 December<br>2015 |
|--------------------------------|-----------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------------------|---------------------|
| Restoration provision          | 341,371                           | (35,991)                                                       | -                                                                               | 305,380             |
| Unused tax losses              | 215,495                           | (44,529)                                                       | -                                                                               | 170,966             |
| Retirement benefit obligations | 176,772                           | 23,759                                                         | 31,987                                                                          | 232,518             |
| Trade and other payables       | 65,846                            | 88,417                                                         | -                                                                               | 154,263             |
| Other non-current assets       | 65,349                            | 9,327                                                          | -                                                                               | 74,676              |
| Inventory                      | 29,812                            | (6,907)                                                        | -                                                                               | 22,905              |
| Finance lease liabilities      | 17,977                            | (10,918)                                                       | -                                                                               | 7,059               |
| Other                          | 12                                | (12)                                                           | -                                                                               | -                   |
| <b>Total</b>                   | <b>912,634</b>                    | <b>23,146</b>                                                  | <b>31,987</b>                                                                   | <b>967,767</b>      |

|                                             | 31 December<br>2014<br>(Restated) | Movement for<br>the period<br>recognized in<br>profit and loss | Movement for<br>the period<br>recognized in<br>other<br>comprehensive<br>income | 31 December<br>2015 |
|---------------------------------------------|-----------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------------------|---------------------|
| Total deferred income tax liabilities       | (7,431,150)                       | (700,510)                                                      | -                                                                               | (8,131,660)         |
| Total deferred income tax assets            | 912,634                           | 23,146                                                         | 31,987                                                                          | 967,767             |
| <b>Deferred income tax liabilities, net</b> | <b>(6,518,516)</b>                | <b>(677,364)</b>                                               | <b>31,987</b>                                                                   | <b>(7,163,893)</b>  |

**Deferred income tax liabilities**

|                                               | 1 January<br>2014<br>(Restated) | Movement for<br>the period<br>recognized in<br>profit and loss | Movement for<br>the period<br>recognized in<br>other<br>comprehensive<br>income | 31 December<br>2014<br>(Restated) |
|-----------------------------------------------|---------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------|
| Property, plant and equipment                 | (7,057,526)                     | (75,573)                                                       | -                                                                               | (7,133,099)                       |
| Deposits for pensions                         | (136,642)                       | 4,102                                                          | -                                                                               | (132,540)                         |
| Provision for impairment of trade receivables | (113,722)                       | (40,289)                                                       | -                                                                               | (154,011)                         |
| Intangible assets                             | (12,905)                        | 1,414                                                          | -                                                                               | (11,491)                          |
| Available-for-sale investments                | -                               | 19,383                                                         | (19,383)                                                                        | -                                 |
| Other                                         | -                               | (9)                                                            | -                                                                               | (9)                               |
| <b>Total</b>                                  | <b>(7,320,795)</b>              | <b>(90,972)</b>                                                | <b>(19,383)</b>                                                                 | <b>(7,431,150)</b>                |

**Deferred income tax assets**

|                                | 1 January<br>2014<br>(Restated) | Movement for<br>the period<br>recognized in<br>profit and loss | Movement for<br>the period<br>recognized in<br>other<br>comprehensive<br>income | 31 December<br>2014<br>(Restated) |
|--------------------------------|---------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------|
| Retirement benefit obligations | 228,613                         | 19,137                                                         | (70,978)                                                                        | 176,772                           |
| Trade and other payables       | 98,012                          | (32,166)                                                       | -                                                                               | 65,846                            |
| Restoration provision          | 91,638                          | 249,733                                                        | -                                                                               | 341,371                           |
| Other non-current assets       | 85,154                          | (19,805)                                                       | -                                                                               | 65,349                            |
| Unused tax losses              | 64,312                          | 151,183                                                        | -                                                                               | 215,495                           |
| Finance lease liabilities      | 31,255                          | (13,278)                                                       | -                                                                               | 17,977                            |
| Inventory                      | 9,469                           | 20,343                                                         | -                                                                               | 29,812                            |
| Available-for-sale investments | 4,340                           | (4,340)                                                        | -                                                                               | -                                 |
| Other                          | -                               | 12                                                             | -                                                                               | 12                                |
| <b>Total</b>                   | <b>612,793</b>                  | <b>370,819</b>                                                 | <b>(70,978)</b>                                                                 | <b>912,634</b>                    |

  

|                                             | 1 January<br>2014<br>(Restated) | Movement for<br>the period<br>recognized in<br>profit and loss | Movement for<br>the period<br>recognized in<br>other<br>comprehensive<br>income | 31 December<br>2014<br>(Restated) |
|---------------------------------------------|---------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------|
| Total deferred income tax liabilities       | (7,320,795)                     | (90,972)                                                       | (19,383)                                                                        | (7,431,150)                       |
| Total deferred income tax assets            | 612,793                         | 370,819                                                        | (70,978)                                                                        | 912,634                           |
| <b>Deferred income tax liabilities, net</b> | <b>(6,708,002)</b>              | <b>279,847</b>                                                 | <b>(90,361)</b>                                                                 | <b>(6,518,516)</b>                |

**Note 15. Non-current debt**

|                         | Currency | Effective interest rate | Due       | 31 December 2015  | 31 December 2014<br>(Restated) |
|-------------------------|----------|-------------------------|-----------|-------------------|--------------------------------|
| Loans                   | RR       | 8.18%-12.00%            | 2017-2025 | 26,574,060        | 45,725,652                     |
| Bonds                   | RR       | 11.87%                  | 2020      | 10,000,000        | -                              |
| Finance lease liability | RR       | -                       | -         | -                 | 28,146                         |
| <b>Total</b>            |          |                         |           | <b>36,574,060</b> | <b>45,753,798</b>              |

All of the above debt is obtained at fixed interest rates. The effective interest rate is the market interest rate applicable to the loan at the date of origination for fixed rate loans.

**Maturity table**

|                              | 31 December 2015  | 31 December 2014<br>(Restated) |
|------------------------------|-------------------|--------------------------------|
| <b>Due for repayment</b>     |                   |                                |
| Between one and two years    | 16,100,000        | 24,498,810                     |
| Between two and three years  | 3,639,908         | 16,100,000                     |
| Between three and four years | -                 | -                              |
| Between four and five years  | 10,000,000        | -                              |
| More than five years         | 6,834,152         | 5,154,988                      |
| <b>Total</b>                 | <b>36,574,060</b> | <b>45,753,798</b>              |

The lease liabilities are effectively secured as the rights for the leased asset revert to the lessor in the event of default.

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| <b>Finance lease liabilities – minimum lease payments</b> | <b>31 December 2015</b> | <b>31 December 2014</b> |
|-----------------------------------------------------------|-------------------------|-------------------------|
| <b>Due for repayment</b>                                  |                         |                         |
| Less than one year                                        | 36,288                  | 70,605                  |
| Between one year and five years                           | -                       | 29,767                  |
| Future finance charges on finance lease                   | (2,300)                 | (12,614)                |
| <b>Present value of lease liabilities</b>                 | <b>33,988</b>           | <b>87,758</b>           |

**Note 16. Retirement benefit obligations**

The post employment and post retirement program of the Company consists of the occupational pension plan and various post employment, long-term and jubilee benefits. This is a defined benefit plan, under which the participants accrue pension entitlements on the basis of a formula or defined rule. The occupational pension program comprises the main part of the program. According to the pension formula, the pension benefit is dependent on the past service of participants and their final salary. Employees older than 25 are entitled to the occupational pension benefits.

The defined benefit pension plan provides old age retirement pension and disability pension. The plan's old age retirement pension is conditional on the member qualifying for the State old age pension.

The Company also provides various long-term and post employment benefits including death in service and death in occupational pension benefit, lump sum payments upon retirement and jubilee benefits to active employees.

Additionally the Company provides financial support payments of a defined benefit nature to its former employees, who have reached the retirement age. Such benefits are paid either to those who qualify for the occupational pension plan and those who do not.

Due to the post employment program the Company pays contributions to NPF Electroenergetiki and NPF GAZFOND, which are accumulated on pension accounts. In accordance with the terms of the treaty there is a possibility to abrogate a contract and receive the redemption amount of the depositor. In that way NPF funds do not meet the plan assets criteria. So they are recognized as a separate asset of the Company. The amount of that asset equals RR 549,428 thousand as at 31 December 2015 (as at 31 December 2014: 662,700 RR thousand) (Note 9).

As at 31 December 2015, there were 8,985 active employees eligible to participate in the post retirement defined benefit program of the Company and 6,776 recipients of the financial support benefits (as at 31 December 2014: 9,001 and 7,012 respectively).

The last independent actuarial valuation of pension and other post employment and long-term benefits in accordance with the provisions of IAS 19 was performed as at 31 December 2015 using individual members' census data as at the valuation date.

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

|                                                              | <b>31 December<br/>2015</b> | <b>31 December<br/>2014</b> |
|--------------------------------------------------------------|-----------------------------|-----------------------------|
| Present value of defined benefit obligation                  | 1,709,967                   | 1,314,740                   |
| Present value of other long-term employee benefit obligation | 281,085                     | 215,499                     |
| <b>Total defined benefit liability</b>                       | <b>1,991,052</b>            | <b>1,530,239</b>            |

**OGK-2 Group**

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

(in thousands of Russian Roubles unless noted otherwise)

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

|                                                      | Present value<br>of defined<br>benefit<br>obligation | Present value<br>of other long-<br>term employee<br>benefit<br>obligation | Total            |
|------------------------------------------------------|------------------------------------------------------|---------------------------------------------------------------------------|------------------|
| <b>At 1 January 2014</b>                             | <b>1,728,888</b>                                     | <b>291,471</b>                                                            | <b>2,020,359</b> |
| Current service cost                                 | 72,425                                               | 17,557                                                                    | 89,982           |
| Interest expense                                     | 144,105                                              | 24,722                                                                    | 168,827          |
| Remeasurements:                                      |                                                      |                                                                           |                  |
| Loss / (gain) from change in demographic assumptions | 186,284                                              | (43,553)                                                                  | 142,731          |
| (Gain) / loss from change in financial assumptions   | (148,828)                                            | 12,933                                                                    | (135,895)        |
| Experience gains                                     | (501,516)                                            | (55,231)                                                                  | (556,747)        |
| Benefits paid                                        | (166,618)                                            | (32,400)                                                                  | (199,018)        |
| <b>At 31 December 2014</b>                           | <b>1,314,740</b>                                     | <b>215,499</b>                                                            | <b>1,530,239</b> |
| Current service cost                                 | 42,766                                               | 15,049                                                                    | 57,815           |
| Interest expense                                     | 176,476                                              | 29,970                                                                    | 206,446          |
| Remeasurements:                                      |                                                      |                                                                           |                  |
| Experience losses / (gains)                          | 7,940                                                | (194)                                                                     | 7,746            |
| Loss from change in demographic assumptions          | 107,476                                              | 14,033                                                                    | 121,509          |
| Loss from change in financial assumptions            | 212,778                                              | 37,625                                                                    | 250,403          |
| Benefits paid                                        | (152,208)                                            | (30,898)                                                                  | (183,106)        |
| <b>At 31 December 2015</b>                           | <b>1,709,968</b>                                     | <b>281,084</b>                                                            | <b>1,991,052</b> |

Amounts recognised in the consolidated statement of profit or loss are as follows:

|                                                                                | Year ended<br>31 December 2015 | Year ended<br>31 December 2014 |
|--------------------------------------------------------------------------------|--------------------------------|--------------------------------|
| Service cost                                                                   | 57,815                         | 89,982                         |
| Remeasurements on present value of other long-term employee benefit obligation | 51,464                         | (85,851)                       |
| Interest expense                                                               | 206,446                        | 168,827                        |
| <b>Total</b>                                                                   | <b>315,725</b>                 | <b>172,958</b>                 |

Amounts recognised in consolidated statement of comprehensive income are as follows:

|                                                      | Year ended<br>31 December 2015 | Year ended<br>31 December 2014 |
|------------------------------------------------------|--------------------------------|--------------------------------|
| Experience losses                                    | 7,940                          | 186,284                        |
| Loss / (gain) from change in demographic assumptions | 107,476                        | (148,828)                      |
| Loss / (gain) from change in financial assumptions   | 212,778                        | (501,516)                      |
| <b>Total</b>                                         | <b>328,194</b>                 | <b>(464,060)</b>               |

The movement of remeasurements in consolidated statement of comprehensive income are as follows:

|                                 | Year ended<br>31 December 2015 | Year ended<br>31 December 2014 |
|---------------------------------|--------------------------------|--------------------------------|
| <b>At the beginning of year</b> | <b>(53,716)</b>                | <b>410,343</b>                 |
| Movement of remeasurements      | 328,194                        | (464,060)                      |
| <b>At the end of year</b>       | <b>274,478</b>                 | <b>(53,717)</b>                |

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2015**

(in thousands of Russian Roubles unless noted otherwise)

The key actuarial assumptions used were as follows:

|                                             | 31 December 2015                            | 31 December 2014                            |
|---------------------------------------------|---------------------------------------------|---------------------------------------------|
| Discount rate                               | 9.50%                                       | 13.00%                                      |
| Future salary increases                     | 7.00%                                       | 8.50%                                       |
| Future pension increases                    | n/a                                         | n/a                                         |
| Future financial support benefits increases | 5.30%                                       | 7.40%                                       |
| Social fund contribution rate               | 27.19%                                      | 26.49%                                      |
| Staff turnover                              | 4.20%                                       | 4.80%                                       |
| Expected retirement age:                    |                                             |                                             |
| Male                                        | 62                                          | 62                                          |
| Female                                      | 57                                          | 57                                          |
| Mortality (employees)                       | Russia, 2013 adjusted 60%<br>(to level 40%) | Russia, 2013 adjusted 60%<br>(to level 40%) |
| Mortality (pensioners)                      | Russia, 2013 adjusted 6%<br>(to level 94%)  | Russia, 2013 adjusted 6%<br>(to level 94%)  |

Financial actuarial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The average period over which the Group obligations are to be settled is 10 years.

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

|                                                         | Change<br>in assumption       | Impact on defined<br>benefit liability |
|---------------------------------------------------------|-------------------------------|----------------------------------------|
| Discount rate                                           | Increase / decrease by 1%     | Decrease / increase by 9.7%            |
| Future salary increases                                 | Increase / decrease by 1%     | Increase / decrease by 8.6%            |
| Future financial support benefits increases (inflation) | Increase / decrease by 1%     | Increase / decrease by 1.4%            |
| Staff turnover                                          | Increase / decrease by 10.00% | Decrease / increase by 1.5%            |
| Mortality level                                         | Increase / decrease by 10.00% | Decrease / increase by 0.8%            |
| Probability of retirement                               | Increase / decrease by 10.00% | Decrease / increase by 0.47%           |

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

The Group expects to contribute to the plan for the next annual reporting period RR 151,019 thousand.

The most significant Group's risks that arise from the post-employment benefit plan are:

- *Changes in government bond yield.* The reduction in government bond yields will lead to the growth of the current value of liabilities according to the employee benefit plan of the Group.
- *Inflation risk and the risk of employees' wages growth.* The most of the employee benefit plans are linked to the level of employees' wages and salaries. At the same time the inflation growth has a direct impact on the growth of salaries and wages. So the high inflation level will lead to the growth of the current value of liabilities according to the employee benefit plan of the Group.
- *The reduction of mortality rate among plan participants.* The most part of the Group's liabilities includes lump sum payments upon reaching certain age or experience achievement, including retirement payments. The amount of the Group's obligation for such payments depends on the probability of employees' survival to the expected date of settlement. In addition to employee benefit plan, the Group makes a lifetime payments to non-working pensioners. The amount of such obligation depends on life expectancy. The reduction of death rate among employees and pensioners will lead to the growth of the current value of liabilities according to the all benefit plans of the Group.



**OGK-2 Group**
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**Note 17. Restoration provision**

The Group owns an ash dump on the territory of the Republic of Kazakhstan, and an obligation to restore the surface of this ash dump when it is full. The main assumptions used in the calculation of the provision are as following:

- Average inflation per annum – 4.68% (2014: 5.77%);
- Pre-tax discount rate – 10.15% (2014: 12.80%);
- Projected restoration period – 14 years (2014: 15 years).

|                                                                     | Note | 31 December 2015 | 31 December 2014 |
|---------------------------------------------------------------------|------|------------------|------------------|
| <b>Total carrying amount at the beginning of year</b>               |      | <b>1,706,856</b> | <b>458,190</b>   |
| Less current portion                                                |      | (261,372)        | (38,554)         |
| <b>Non-current portion at the beginning of year</b>                 |      | <b>1,445,484</b> | <b>419,636</b>   |
| Unwinding of the present value discount                             | 25   | 160,937          | 104,541          |
| Changes in estimates adjusted against property, plant and equipment |      | (44,624)         | 1,441,474        |
| Utilisation                                                         |      | (296,268)        | (297,349)        |
| <b>Total carrying amount at the end of year</b>                     |      | <b>1,526,901</b> | <b>1,706,856</b> |
| Less current portion                                                |      | (475,245)        | (261,372)        |
| <b>Non-current portion at the end of year</b>                       |      | <b>1,051,656</b> | <b>1,445,484</b> |

The sensitivity of the restoration provision for ash dump restoration to changes in the principal assumptions is:

|                  | Change in assumption       | Impact on restoration provision         | Impact on restoration provision       |
|------------------|----------------------------|-----------------------------------------|---------------------------------------|
| Discount rate    | Increase / decrease by 1%  | Decrease by 68,346 / increase by 74,832 | Decrease by 4.48% / increase by 4.90% |
| Restoration cost | Increase / decrease by 10% | Increase / decrease by 152,690          | Increase / decrease by 10.00%         |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant.

**Note 18. Other long-term liabilities**

|                                                                                                                       | 31 December 2015 | 31 December 2014 |
|-----------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Other payables                                                                                                        | 2,836,953        | 8,020            |
| Trade payables                                                                                                        | 907,346          | 494,049          |
| (net of effect of discounting RR 171,326 thousand as at 31 December 2015 and 153,980 thousand as at 31 December 2014) |                  |                  |
| <b>Total finance liabilities</b>                                                                                      | <b>3,744,299</b> | <b>502,069</b>   |

**Note 19. Current debt and current portion of non-current debt**

|                                            | Currency | Effective interest rate | 31 December 2015  | 31 December 2014 (Restated) |
|--------------------------------------------|----------|-------------------------|-------------------|-----------------------------|
| Current portion of long-term loans         | RR       | 8.00%-12.00%            | 33,394,714        | 7,927,276                   |
| Current loans                              | RR       | 12.00%                  | 2,602,504         | -                           |
| Current portion of bonds                   | RR       | 11.87%                  | 110,045           | -                           |
| Current portion of finance lease liability | RR       | 19.62%-23.51%           | 33,988            | 59,612                      |
| <b>Total</b>                               |          |                         | <b>36,141,251</b> | <b>7,986,888</b>            |

All of the above debt is obtained at fixed interest rates. The effective interest rate is the market interest rate applicable to the loan at the date of origination for fixed rate loans.

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**Note 20. Trade and other payables**

|                                                                                                         | <b>31 December 2015</b> | <b>31 December 2014<br/>(Restarted)</b> |
|---------------------------------------------------------------------------------------------------------|-------------------------|-----------------------------------------|
| <b>Trade payables</b>                                                                                   |                         |                                         |
| (net of effect of discounting RR 5,867 thousand as at<br>31 December 2015 and 0 as at 31 December 2014) | 11,293,164              | 15,852,397                              |
| <b>Accrued liabilities and other payables</b>                                                           | 370,949                 | 383,616                                 |
| <b>Dividends payable</b>                                                                                | 3,323                   | 595                                     |
| <b>Financial liabilities</b>                                                                            | <b>11,667,436</b>       | <b>16,236,608</b>                       |
| <b>Salaries and wages payable</b>                                                                       | 558,652                 | 608,634                                 |
| <b>Advances from customers</b>                                                                          | 13,450                  | 234,352                                 |
| <b>Total</b>                                                                                            | <b>12,239,538</b>       | <b>17,079,594</b>                       |

**Note 21. Other taxes payable**

|                                      | <b>31 December 2015</b> | <b>31 December 2014<br/>(Restarted)</b> |
|--------------------------------------|-------------------------|-----------------------------------------|
| <b>Property tax</b>                  | 297,670                 | 250,917                                 |
| <b>Social funds contribution</b>     | 212,008                 | 216,509                                 |
| <b>Value added tax</b>               | 134,535                 | 14,548                                  |
| <b>Personal income tax</b>           | 58,514                  | 69,018                                  |
| <b>Environment pollution payment</b> | 56,896                  | 104,327                                 |
| <b>Water usage tax</b>               | 27,119                  | 150,386                                 |
| <b>Other taxes</b>                   | 8,247                   | 10,870                                  |
| <b>Total</b>                         | <b>794,989</b>          | <b>816,575</b>                          |

**Note 22. Revenues**

|                                 | <b>Year ended<br/>31 December 2015</b> | <b>Year ended<br/>31 December 2014<br/>(Restarted)</b> |
|---------------------------------|----------------------------------------|--------------------------------------------------------|
| <b>Electricity and capacity</b> | 106,645,252                            | 110,337,303                                            |
| <b>Heating</b>                  | 4,545,611                              | 4,636,799                                              |
| <b>Other</b>                    | 1,042,511                              | 961,248                                                |
| <b>Total</b>                    | <b>112,233,374</b>                     | <b>115,935,350</b>                                     |

## Note 23. Operating expenses

|                                                                                                            | Year ended<br>31 December 2015 | Year ended<br>31 December 2014<br>(Restated) |
|------------------------------------------------------------------------------------------------------------|--------------------------------|----------------------------------------------|
| Fuel                                                                                                       | 62,789,018                     | 65,303,912                                   |
| Purchased electricity, capacity and heat                                                                   | 10,733,372                     | 11,291,367                                   |
| Employee benefits                                                                                          | 7,966,589                      | 7,574,413                                    |
| Depreciation and amortisation of property, plant, equipment and intangible assets                          | 6,193,433                      | 5,208,582                                    |
| Repairs                                                                                                    | 3,378,464                      | 3,088,250                                    |
| Raw materials and supplies                                                                                 | 2,594,603                      | 1,729,538                                    |
| Taxes other than income tax                                                                                | 2,551,727                      | 2,294,908                                    |
| Rent                                                                                                       | 2,525,224                      | 2,705,489                                    |
| Dispatcher's fees                                                                                          | 2,024,319                      | 1,952,276                                    |
| Electricity transit                                                                                        | 1,313,342                      | 1,455,724                                    |
| Charge of provision for impairment of trade and other receivables                                          | 1,220,111                      | 1,014,715                                    |
| Transport                                                                                                  | 722,536                        | 783,403                                      |
| Ecological payments                                                                                        | 483,499                        | 460,609                                      |
| Insurance                                                                                                  | 187,663                        | 176,197                                      |
| Loss on disposal of other assets                                                                           | 262,048                        | 25,926                                       |
| Consulting, legal and audit services                                                                       | 133,972                        | 140,950                                      |
| Charge of provision for impairment of assets                                                               | 421,613                        | 8,646,854                                    |
| Gain on disposal of property, plant, equipment (Reversal) / charge of provision for inventory obsolescence | (3,027)<br>(19,925)            | (3,353)<br>113,707                           |
| Other expenses                                                                                             | 3,054,275                      | 2,819,257                                    |
| <b>Total operating expenses</b>                                                                            | <b>108,532,856</b>             | <b>116,782,724</b>                           |

Employee benefits expenses comprise the following:

|                                                 | Year ended<br>31 December 2015 | Year ended<br>31 December 2014<br>(Restated) |
|-------------------------------------------------|--------------------------------|----------------------------------------------|
| Salaries and wages                              | 5,662,008                      | 5,474,029                                    |
| Social funds contribution                       | 1,685,311                      | 1,541,484                                    |
| Financial aid to employees and pensioners       | 491,777                        | 521,111                                      |
| Non-state pensions and other long-term benefits | 109,279                        | 4,131                                        |
| Other expenses                                  | 18,214                         | 33,658                                       |
| <b>Employee benefits</b>                        | <b>7,966,589</b>               | <b>7,574,413</b>                             |
| Number of personnel at the end of the period    | 9,498                          | 9,455                                        |

Included in social funds contribution are statutory pension contributions of RR 1,286,491 thousand for the year ended 31 December 2015 (for the year ended 31 December 2014 (Restated): RR 1,234,021 thousand).

## Note 24. Finance income

|                                                                             | Year ended<br>31 December 2015 | Year ended<br>31 December 2014<br>(Restated) |
|-----------------------------------------------------------------------------|--------------------------------|----------------------------------------------|
| Foreign currency exchange gain                                              | 1,464,472                      | 26,598                                       |
| Interest income on bank deposits and current bank account balances          | 958,610                        | 1,049,743                                    |
| Interest income on loans                                                    | 95,608                         | 69,745                                       |
| Effect of discounting of long-term promissory notes received                | 49,266                         | 90,013                                       |
| Effect of discounting of long-term payables                                 | 21,385                         | 50,051                                       |
| Effect of discounting of long-term restructured trade and other receivables | 8,839                          | 40,465                                       |
| Other finance income                                                        | 34,512                         | 44,437                                       |
| <b>Total finance income</b>                                                 | <b>2,632,692</b>               | <b>1,371,052</b>                             |

## Note 25. Finance costs

|                                                                  | Notes | Year ended<br>31 December 2015 | Year ended<br>31 December 2014<br>(Restated) |
|------------------------------------------------------------------|-------|--------------------------------|----------------------------------------------|
| Foreign currency exchange loss                                   |       | 1,399,084                      | 284,408                                      |
| Interest expense on debt                                         |       | 1,235,020                      | 592,538                                      |
| Interest on employee benefit obligations                         | 16    | 206,446                        | 168,827                                      |
| Unwinding of the present value discount - provision for ash dump | 17    | 160,937                        | 104,541                                      |
| Effect of discounting of long-term payables                      |       | 127,266                        | -                                            |
| Effect of discounting of long-term promissory notes received     |       | 27,742                         | 18,213                                       |
| Interest expense under finance lease agreements                  |       | 12,763                         | 23,734                                       |
| <b>Total finance costs</b>                                       |       | <b>3,169,258</b>               | <b>1,192,261</b>                             |

## Note 26. Earnings per share

|                                                                                                                         | Year ended<br>31 December 2015 | Year ended<br>31 December 2014<br>(Restated) |
|-------------------------------------------------------------------------------------------------------------------------|--------------------------------|----------------------------------------------|
| Weighted average number of ordinary shares issued                                                                       | 105,736,843,666                | 107,965,145,452                              |
| Profit / (loss) attributable to the shareholders of JSC "OGK-2" (thousands of RR)                                       | 3,351,859                      | (1,445,689)                                  |
| <b>Earnings / (loss) per ordinary share attributable to the shareholders of JSC "OGK-2" – basic and diluted (in RR)</b> | <b>0.03</b>                    | <b>(0.01)</b>                                |

The diluted earnings per share are equal to the basic earnings per share as the Company has no dilutive ordinary shares.

## Note 27. Capital commitments

In November 2010 the Company had signed agency agreements with JSC "FSC", OJSC "Administrator of Trade System" (OJSC "ATS"), NP Council Market and SO UPS, under which JSC "FSC" was to sign on behalf of the Company contracts on capacity provision. In December 2010 JSC "FSC" on behalf of the Company signed the contracts on provision of capacity from estimated generating units. At 31 December 2015 the Company had an obligation to put into operation generating units, included in the Company's investment program, of 1 410 MW.

As at 31 December 2015 in the framework of the investment program implementation the Group has capital commitments (including VAT) of RR 9,937,908 thousand (as at 31 December 2014 (Restated): RR 17,098,953 thousand).

As at 31 December 2015 the Group has no commitments in respect of software implementation costs (as at 31 December 2014: RR 6,796 thousand).

#### Note 28. Contingencies

**Political and economic environment.** The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russian Federation.

**Insurance.** The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks for which it does not have insurance.

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

**Tax contingency.** Russian tax, currency and customs legislation are subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

As at 31 December 2015 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and currency positions will be sustained.

**Environmental matters.** The Group and its predecessor entities 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 position of government authorities is continually being reconsidered.

The Group owns an ash dump on the territory of the Republic of Kazakhstan, and is subject to the environmental regulations in this country in respect of the usage of the ash dump. As such, the Group periodically evaluates its obligations under Kazakhstan environmental regulations and accrues the respective provision (Note 17).

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 remediation in excess of those amounts for which the provision has been recognised by the Group in these consolidated financial statements.

#### Note 29. Financial instruments and financial risks factors

**Financial risk factors.** The Group's activities expose it to a variety of financial risks, including the effects of changes in interest rates, the collectability of receivables and changes in foreign currency exchange rates. The Group does not have a risk policy to hedge its financial exposures.

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its loans and borrowings. The Group was in compliance with covenants at 31 December 2014. On 31 December 2015 the Group partly did not comply with particular terms of financial covenants. As a result, on 31 December 2015 long-term loans in the amount of RR 7,600,000 thousand are classified as short-term loans.

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**Credit risk.** The Group's financial assets, which are exposed to credit risk, are as follows:

|                               | Notes | 31 December 2015  | 31 December 2014<br>(Restated) |
|-------------------------------|-------|-------------------|--------------------------------|
| Cash and cash equivalents     | 10    | 7,544,369         | 13,276,031                     |
| Trade and other receivables   | 11    | 13,686,521        | 10,533,684                     |
| Promissory notes              | 11    | 457,930           | 886,675                        |
| Loan issued                   | 9     | 105,999           | -                              |
| Interest receivable           | 11    | 9,046             | 50,042                         |
| <b>Total financial assets</b> |       | <b>21,803,865</b> | <b>24,746,432</b>              |

The Group's exposure to credit risk mainly depends on each particular counterparty characteristics. Due to absence of independent credit ratings for wholesale electricity market and other buyers, the Group assesses their solvency based on financial condition, reputation, past experience and existence of past due. The existing receivables are monitored and collection measures are taken regularly. Management believes that the majority of customers whose balances are included in trade receivables comprise a single class of customers of the same wholesale electric power market, which is regulated by OJSC "ATS".

Management does not believe that the Group is dependent on any particular customer.

As at 31 December 2015 and 31 December 2014 no trade or other receivables were secured by guarantees. Credit risks related to trade and other receivables are systematically reviewed for necessity of creation of impairment provision against trade and other receivables. Trade and other receivables balance netted with trade and other receivables impairment provision represents maximum exposure to credit risks, relating to receivables. Despite the fact that cash collection is subject to influence of different economic factors, management of the Group believes that there is no significant risk of losses exceeding recognized trade and other receivables impairment provision.

The amount of trade and other receivables impairment provision is assessed by management based on the analysis of particular counterparty's solvency, credit history and cash collection, and analysis of future cash flows. As at 31 December 2015 identification of present value of future cash flows was done utilizing discount rates of 13.45% p.a. (as at 31 December 2014: 13.27% p.a. – 15.52% p.a.), calculated based on the original effective interest rate. Discounting effect is recognized as part of finance expenses (finance income). The Group estimates that discounted amount of trade and other receivables less recognized impairment provision can be collected in cash or settled against trade and other payables.

As at 31 December 2015 the main part of the provision for impairment related to the receivable from JSC "E4 Group" in the amount of RR 2,321,318 thousand (as at 31 December 2014: RR 0 thousand), CJSC "Mezhdunarodny promyshlenny bank" in the amount of RR 1,157,325 thousand (as at 31 December 2014: RR 1,157,325 thousand) and receivable from customers in North Caucasus region of Russia in the amount of RR 2,329,946 thousand (as at 31 December 2014: RR 3,452,239 thousand).

Movements in trade and other receivables impairment provision during 2015 were as follows:

|                                                    |                  |
|----------------------------------------------------|------------------|
| <b>Impairment provision as at 31 December 2014</b> | <b>7,649,402</b> |
| Accrual of impairment provision                    | 2,701,798        |
| Write-off of doubtful trade and other receivables  | (103,378)        |
| Reversal of impairment provision                   | (1,481,960)      |
| <b>Impairment provision as at 31 December 2015</b> | <b>8,765,862</b> |

Movements in trade and other receivables impairment provision during 2014 were as follows:

|                                                    |                  |
|----------------------------------------------------|------------------|
| <b>Impairment provision as at 1 January 2014</b>   | <b>6,737,992</b> |
| Accrual of impairment provision                    | 1,581,350        |
| Write-off of doubtful trade and other receivables  | (103,299)        |
| Reversal of impairment provision                   | (566,641)        |
| <b>Impairment provision as at 31 December 2014</b> | <b>7,649,402</b> |

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As at 31 December 2015 total amount of overdue trade and other receivables which were not provided for was RR 6,785,079 thousand (as at 31 December 2014: RR 3,467,889 thousand). The reason impairment provision was not created is the absence of non-payment of respective counterparties in the past.

The analysis of trade and other receivables by accrual periods is presented below:

| <b>31 December 2015</b>         |                      |                    |                              |                        |
|---------------------------------|----------------------|--------------------|------------------------------|------------------------|
|                                 | <b>Nominal value</b> | <b>Impairment</b>  | <b>Effect of discounting</b> | <b>Carrying amount</b> |
| Not overdue                     | 6,917,832            | (5,571)            | (10,819)                     | 6,901,442              |
| Overdue less than 1 month       | 357,560              | -                  | -                            | 357,560                |
| Overdue from 1 to 3 months      | 405,265              | (4)                | -                            | 405,261                |
| Overdue from 3 months to 1 year | 6,636,371            | (1,408,859)        | -                            | 5,227,512              |
| Overdue from 1 year to 3 years  | 4,646,831            | (3,852,104)        | -                            | 794,727                |
| Overdue more than 3 years       | 3,499,343            | (3,499,324)        | -                            | 19                     |
| <b>Total</b>                    | <b>22,463,202</b>    | <b>(8,765,862)</b> | <b>(10,819)</b>              | <b>13,686,521</b>      |

  

| <b>31 December 2014 (Restated)</b> |                      |                    |                              |                        |
|------------------------------------|----------------------|--------------------|------------------------------|------------------------|
|                                    | <b>Nominal value</b> | <b>Impairment</b>  | <b>Effect of discounting</b> | <b>Carrying amount</b> |
| Not overdue                        | 7,201,818            | (7,176)            | (19,658)                     | 7,174,984              |
| Overdue less than 1 month          | 1,064,369            | (38,338)           | -                            | 1,026,031              |
| Overdue from 1 to 3 months         | 645,783              | (103,236)          | -                            | 542,547                |
| Overdue from 3 months to 1 year    | 2,423,809            | (706,658)          | -                            | 1,717,151              |
| Overdue from 1 year to 3 years     | 3,862,635            | (3,789,684)        | -                            | 72,951                 |
| Overdue more than 3 years          | 3,004,330            | (3,004,310)        | -                            | 20                     |
| <b>Total</b>                       | <b>18,202,744</b>    | <b>(7,649,402)</b> | <b>(19,658)</b>              | <b>10,533,684</b>      |

Cash is placed in Russian financial institutions which are considered at the time of deposit to have minimal or low risk of default. The Board of Directors of the Company has approved a list of the banks, at which deposits could be placed and rules for such placements. Also the Group continuously considers financial condition, independent agencies ratings, past experience and other factors. The list of the banks with balances and ratings, at which the Group has open current bank accounts and deposits at the reporting date, is presented in Notes 10.

The Company can accept bank promissory notes from contractors in payment for the delivered electrical energy and power. The Group continuously monitors the financial position of banks and their ratings assigned by independent agencies, past experience and other factors. Note 11 includes lists of banks with information on the amount of their promissory notes and their ratings at the reporting date.

The credit quality of the loan provided is defined as good due to the established relationship with the counterparty, which is a Gazprom Group entity. The loan was not past due. In respect of available-for-sale financial assets, the Group continuously monitors the financial position, ratings assigned by independent agencies, market price dynamics (if available) and other performance indicators of companies recognized in this category.

As at the reporting date maximum Group's exposure to credit risk equals to carrying amount of each class of financial assets. The Group does not hold any collateral.

**Liquidity risk.** Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. To manage the liquidity risk the Group applies a policy of holding financial assets for which there is a liquid market and that are readily convertible to meet liquidity needs. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.



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| 31 December 2015                                                                         | Notes        | 0-6 months        | 6-12 months        | 1-2 years         | 2-3 years         | 3-4 years        | 4-5 years         | Over 5 years        | Total              | Carrying value        |
|------------------------------------------------------------------------------------------|--------------|-------------------|--------------------|-------------------|-------------------|------------------|-------------------|---------------------|--------------------|-----------------------|
| Loans including future principal and interest payments                                   | 15, 19       | 7,348,361         | 34,989,815         | 19,074,463        | 5,743,856         | 1,815,607        | 11,815,607        | 9,577,123           | 90,364,832         | 72,681,323            |
| Finance lease liability                                                                  | 19           | 28,292            | 7,996              | -                 | -                 | -                | -                 | -                   | 36,288             | 33,988                |
| Trade payables                                                                           | 18, 20       | 10,956,330        | 342,701            | 801,807           | 276,865           | -                | -                 | -                   | 12,377,703         | 12,200,510            |
| Other payables (except for advances received and liabilities for employee compensations) | 18, 20       | 373,921           | 351                | 3,327,085         | 702               | 702              | 702               | 4,541               | 3,707,984          | 3,211,225             |
| <b>Total future payments</b>                                                             |              | <b>18,706,904</b> | <b>35,340,863</b>  | <b>23,203,335</b> | <b>6,021,423</b>  | <b>1,816,309</b> | <b>11,816,309</b> | <b>9,581,664</b>    | <b>106,486,807</b> | <b>88,127,046</b>     |
| <b>31 December 2014 (Restated)</b>                                                       | <b>Notes</b> | <b>0-6 months</b> | <b>6-12 months</b> | <b>1-2 years</b>  | <b>2-3 years</b>  | <b>3-4 years</b> | <b>4-5 years</b>  | <b>Over 5 years</b> | <b>Total</b>       | <b>Carrying value</b> |
| Loans including future principal and interest payments                                   | 15, 19       | 2,206,410         | 8,567,522          | 29,305,146        | 17,263,839        | 436,312          | 436,312           | 7,036,682           | 65,272,223         | 53,852,928            |
| Finance lease liability                                                                  | 19           | 37,023            | 33,582             | 29,767            | -                 | -                | -                 | -                   | 100,372            | 87,758                |
| Trade payables                                                                           | 18, 20       | 14,287,672        | 1,564,725          | 2,663             | 645,322           | 44               | -                 | -                   | 16,500,426         | 16,346,446            |
| Other payables (except for advances received and liabilities for employee compensations) | 18, 20       | 383,845           | 366                | 733               | 733               | 733              | 733               | 5,088               | 392,231            | 392,231               |
| <b>Total future payments</b>                                                             |              | <b>16,914,950</b> | <b>10,186,195</b>  | <b>29,338,309</b> | <b>17,909,894</b> | <b>437,089</b>   | <b>437,045</b>    | <b>7,041,770</b>    | <b>82,265,252</b>  | <b>70,479,363</b>     |

The Group has the following unutilized bank credit lines:

|                                                     | 31 December 2015  | 31 December 2014  |
|-----------------------------------------------------|-------------------|-------------------|
| Floating interest rate facility:                    |                   |                   |
| - expiring more than 1 year from the reporting date | 17,160,092        | -                 |
| Fixed interest rate facility*:                      |                   |                   |
| - expiring more than 1 year from the reporting date | -                 | 18,779,336        |
| <b>Total</b>                                        | <b>17,160,092</b> | <b>18,779,336</b> |

\*fixed rate is agreed for every tranche withdrawal.

**Interest rate risk.** Profit and cash flows from operating activities of the Group are mainly independent from changes in market interest rates. The Group is exposed to changes in interest rates risk only in respect of changes in market value of interest bearing loans and borrowings and interest bearing deposits. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity. Significant interest bearing assets and liabilities of the Group are disclosed in Notes 10, 15, 19. These assets and liabilities have fixed interest rate and therefore are not exposed to risk of difference between fixed interest rate and market interest rate.

**Currency risk.** The electricity and heat produced by the Group are sold domestically at prices denominated in Russian Roubles, currency of Russian Federation. Due to that fact, the Group has low foreign currency exchange risk exposure. The Group's financial position, liquidity, its sources of financing, financial performance are largely independent of changes in foreign exchange rate because the Group's activity is planned in the way that all its assets and liabilities should be denominated in domestic currency. Due to these facts potential effect of changes in exchange rate of national currency to other currencies is estimated by the Group as insignificant.

**Capital risk management.** The following capital requirements have been established for joint stock companies by the legislation of Russian Federation:

- Share capital cannot be lower than 1,000 minimum salaries on the date of company registration;
- If the share capital of the entity is greater than statutory net assets of the entity, such entity must make a decision on the decrease of its share capital to the value not exceeding its net assets or liquidation value;
- If the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

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As at 31 December 2015 and 31 December 2014, the Group has been in compliance with the above share capital requirements. The Group's objectives when managing capital are to safeguard the Group's ability as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital defined on the basis of Company's statutory financial statements that the Company managed as at 31 December 2015 was RR 111,150,053 thousand (as at 31 December 2014: RR 108,819,570 thousand).

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated based on the statutory financial statements as total liabilities divided by total equity multiplied by 1.4. According to the Company's internal regulation the Company's total liabilities / (equity \* 1.4) ratio should not exceed 1. The Company satisfied this ratio.

The gearing ratios, calculated on the basis of the Company's statutory financial statements at 31 December 2015 and 31 December 2014 were as follows:

|                         | 31 December 2015 | 31 December 2014 |
|-------------------------|------------------|------------------|
| Total liabilities       | 74,474,912       | 58,990,411       |
| Equity * 1.4            | 155,610,074      | 152,347,398      |
| <b>Gearing ratio, %</b> | <b>0.48</b>      | <b>0.39</b>      |

**Fair values.** Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

**(i) Recurring fair value measurements**

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

**(ii) Assets and liabilities not measured at fair value but for which fair value is disclosed**

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

|                                            | Notes  | Level 1          | Level 2             | Level 3             | Fair value          | Carrying value      |
|--------------------------------------------|--------|------------------|---------------------|---------------------|---------------------|---------------------|
| <b>31 December 2015</b>                    |        |                  |                     |                     |                     |                     |
| <b>Financial assets</b>                    |        |                  |                     |                     |                     |                     |
| Promissory notes                           | 11     | -                | 442 045             | -                   | 442 045             | 457,930             |
| Trade and other receivables                | 11     | -                | -                   | 13,686,521          | 13,686,521          | 13,686,521          |
| Interest receivable                        | 11     | -                | -                   | 9,046               | 9,046               | 9,046               |
| Long term loan issued                      | 9      | -                | 90 094              | -                   | 90 094              | 105,999             |
| Cash and cash equivalents                  | 10     | 7,544,330        | -                   | 39                  | 7,544,369           | 7,544,369           |
| <b>Total financial assets</b>              |        | <b>7,544,330</b> | <b>532 139</b>      | <b>13,695,606</b>   | <b>21 772 075</b>   | <b>21,803,865</b>   |
| <b>Financial liabilities</b>               |        |                  |                     |                     |                     |                     |
| Debt (including finance lease liabilities) | 15, 19 | -                | (68,879,879)        | -                   | (68,879,879)        | (72,715,311)        |
| Trade and other payables                   | 18, 20 | -                | -                   | (15,424,263)        | (15,424,263)        | (15,411,735)        |
| <b>Total financial liabilities</b>         |        | <b>-</b>         | <b>(68,879,879)</b> | <b>(15,424,263)</b> | <b>(84,304,142)</b> | <b>(88,127,046)</b> |

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|                                            | Notes  | Level 1           | Level 2             | Level 3             | Fair value          | Carrying value      |
|--------------------------------------------|--------|-------------------|---------------------|---------------------|---------------------|---------------------|
| <b>31 December 2014 (Restated)</b>         |        |                   |                     |                     |                     |                     |
| <b>Financial assets</b>                    |        |                   |                     |                     |                     |                     |
| Promissory notes                           | 11     | -                 | 778,390             | -                   | 778,390             | 886,675             |
| Trade and other receivables                | 11     | -                 | -                   | 10,533,684          | 10,533,684          | 10,533,684          |
| Interest receivable                        | 11     | -                 | -                   | 50,042              | 50,042              | 50,042              |
| Cash and cash equivalents                  | 10     | 13,275,982        | -                   | 49                  | 13,276,031          | 13,276,031          |
| <b>Total financial assets</b>              |        | <b>13,275,982</b> | <b>778,390</b>      | <b>10 583 775</b>   | <b>24,638,147</b>   | <b>24,746,432</b>   |
| <b>Financial liabilities</b>               |        |                   |                     |                     |                     |                     |
| Debt (including finance lease liabilities) | 15, 19 | -                 | (44,148,793)        | -                   | (44,148,793)        | (53,740,686)        |
| Trade and other payables                   | 18, 20 | -                 | -                   | (16,738,677)        | (16,738,677)        | (16,738,677)        |
| <b>Total financial liabilities</b>         |        | <b>-</b>          | <b>(44,148,793)</b> | <b>(16,738,677)</b> | <b>(60,887,470)</b> | <b>(70,479,363)</b> |

**Financial assets carried at amortised cost.** The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. The carrying amounts of trade and other receivables approximates their fair values. Cash and cash equivalents are carried at amortised cost which approximates their current fair value.

**Liabilities carried at amortised cost.** Fair values of financial liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

**Note 30. Segment information**

The Management Board of the Company controls and allocates economic resources of the Group between segments and evaluates segments' operating efficiency. Primary activity of the Group is production of electric and heat power and capacity which covers 99.1% of the Group revenue. The Group operates in Russian Federation.

The technology of electricity and heat production does not allow segregation of electricity and heat segments. The Company's branches are managed separately due to significant decentralization and distances between them, as a result the Group discloses seven reporting segments: Surgutskaya GRES-1, Kirishskaya GRES, Novochoerkasskaya GRES, Stavropolskaya GRES, Krasnoyarskaya GRES-2, Troitskaya GRES, Serovskaya GRES (in 2015 Ryazanskaya GRES ceased to be a reporting segment and is included in the "Other operating segments", in 2014 Krasnoyarsk GRES-2 was not a reporting segment and is included in the "Other operating segments"). All reporting segments are located on the territory of Russian Federation. In the process of evaluation of segments, results and allocation of economic resources of the Group the Management Board uses financial information provided below prepared in accordance with RAR. The differences between the above-mentioned financial indicators analyzed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAR. The main differences relate to the respective carrying values of the value of property, plant and equipment. The Group does not have inter-segment revenue. The main contractor of the Group is JSC "FSC" which generates 55% of the Group revenue for the year ended 31 December 2015 (for the year ended 31 December 2014: 57%).

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| Year ended<br>31 December 2015                | Surgutskaya<br>GRES-1 | Kirishskaya<br>GRES | Novocherkass<br>kaya GRES   | Stavropolskaya<br>GRES | Krasnoyarskaya<br>GRES-2    |
|-----------------------------------------------|-----------------------|---------------------|-----------------------------|------------------------|-----------------------------|
| Revenue                                       | 23,428,664            | 18,537,643          | 14,784,423                  | 15,593,458             | 8,087,431                   |
| Depreciation of property,<br>plant, equipment | 271,472               | 1,175,440           | 278,382                     | 135,049                | 201,692                     |
| Segment operating profit /<br>(loss)          | 4,352,163             | 4,525,200           | (730,265)                   | 725,671                | 2,245,485                   |
| Capital expenditure*                          | 1,144,126             | 748,362             | 10,204,962                  | 309,825                | 657,094                     |
| Year ended<br>31 December 2015                | Troitskaya GRES       | Serovskaya GRES     | Other operating<br>segments |                        | Total operating<br>segments |
| Revenue                                       | 4,035,128             | 2,581,574           | 25,185,053                  |                        | 112,233,374                 |
| Depreciation of property,<br>plant, equipment | 1,433,159             | 127,671             | 2,126,174                   |                        | 5,749,039                   |
| Segment operating profit /<br>(loss)          | (2,613,005)           | (1,189,581)         | (198,577)                   |                        | 7,117,091                   |
| Capital expenditure*                          | 18,352,650            | 6,819,556           | 6,391,691                   |                        | 44,628,266                  |
| Year ended<br>31 December 2014<br>(Restarted) | Surgutskaya<br>GRES-1 | Kirishskaya<br>GRES | Novocherkass<br>kaya GRES   | Stavropolskaya<br>GRES | Ryazanskaya<br>GRES         |
| Revenue                                       | 25,205,306            | 19,566,021          | 16,429,401                  | 15,637,001             | 12,849,497                  |
| Depreciation of property,<br>plant, equipment | 240,294               | 1,199,554           | 261,802                     | 114,847                | 534,483                     |
| Segment operating profit /<br>(loss)          | 6,315,185             | 4,110,125           | 624,973                     | 1,426,144              | 786,558                     |
| Capital expenditure*                          | 361,724               | 169,736             | 6,876,281                   | 357,314                | 1,326,817                   |
| Year ended<br>31 December 2014<br>(Restarted) | Troitskaya GRES       | Serovskaya GRES     | Other operating<br>segments |                        | Total operating<br>segments |
| Revenue                                       | 5,345,287             | 2,964,495           | 17,938,342                  |                        | 115,935,350                 |
| Depreciation of property,<br>plant, equipment | 702,926               | 155,581             | 646,298                     |                        | 3,855,785                   |
| Segment operating profit /<br>(loss)          | (2,140,653)           | (322,586)           | 596,770                     |                        | 11,396,516                  |
| Capital expenditure*                          | 19,969,543            | 4,099,706           | 22,127,665                  |                        | 55,288,786                  |

\*Capital expenditure represents additions to property, plant and equipment under RAR, including advances to construction companies and suppliers of property, plant and equipment.

A reconciliation of management financial information prepared in accordance with RAR to IFRS financial information is provided below:

|                                                            | Year ended<br>31 December 2015 | Year ended<br>31 December 2014<br>(Restarted) |
|------------------------------------------------------------|--------------------------------|-----------------------------------------------|
| Segment operating profit                                   | 7,117,091                      | 11,396,516                                    |
| Adjustments, arising from different accounting<br>policy:  | (858,539)                      | (9,154,842)                                   |
| Finance lease                                              | 77,230                         | 113,662                                       |
| Gain on disposal of assets                                 | 13,933                         | (6,949)                                       |
| Provision for impairment of trade and other<br>receivables | 1,605                          | 2,172                                         |
| Impairment of assets                                       | (419,800)                      | (8,646,749)                                   |
| Depreciation adjustment                                    | (760,400)                      | (1,205,522)                                   |
| Other adjustments                                          | 228,893                        | 588,544                                       |
| Unallocated expenses:                                      | (2,340,062)                    | (2,963,486)                                   |
| Consulting, legal and audit services                       | (65,796)                       | (90,320)                                      |
| Provision for impairment of trade and other<br>receivables | 268,556                        | (1,016,887)                                   |
| Rent                                                       | (462,794)                      | (418,903)                                     |
| Employee benefits                                          | (660,539)                      | (686,343)                                     |
| Other corporate gain / (expenses)                          | (1,419,489)                    | (751,033)                                     |
| <b>Operating profit / (loss) (IFRS)</b>                    | <b>3,918,490</b>               | <b>(721,812)</b>                              |

**OGK-2 Group****Notes to Consolidated Financial Statements for the year ended 31 December 2015**

(in thousands of Russian Roubles unless noted otherwise)

Segment's assets are disclosed below:

|                                         | Surgutskaya<br>GRES-1 | Kirishskaya<br>GRES | Novocherkas-<br>skaya GRES  | Stavropolskaya<br>GRES | Krasnoyarskaya<br>GRES-2 |
|-----------------------------------------|-----------------------|---------------------|-----------------------------|------------------------|--------------------------|
| <b>31 December 2015</b>                 | 4,557,832             | 22,722,876          | 35,901,944                  | 3,437,070              | 3,915,007                |
|                                         | Troitskaya GRES       | Serovskaya GRES     | Other operating<br>segments |                        | Total assets             |
| <b>31 December 2015</b>                 | 52,326,191            | 24,348,966          | 40,095,243                  |                        | 187,305,129              |
|                                         | Surgutskaya<br>GRES-1 | Kirishskaya<br>GRES | Novocherkas-<br>skaya GRES  | Stavropolskaya<br>GRES | Ryazanskaya<br>GRES      |
| <b>31 December 2014<br/>(Restarted)</b> | 4,284,779             | 21,498,572          | 28,790,634                  | 3,176,393              | 13,512,167               |
|                                         | Troitskaya GRES       | Serovskaya GRES     | Other operating<br>segments |                        | Total assets             |
| <b>31 December 2014<br/>(Restarted)</b> | 44,528,768            | 20,412,493          | 28,303,758                  |                        | 164,507,564              |

A reconciliation of management financial information to IFRS financial information is provided below:

|                                                        | <b>31 December 2015</b> | <b>31 December 2014<br/>(Restarted)</b> |
|--------------------------------------------------------|-------------------------|-----------------------------------------|
| Total assets for reportable segment                    | 187,305,129             | 164,507,564                             |
| Adjustments, arising from different accounting policy: | 8,156,765               | 8,107,832                               |
| Property, plant and equipment adjustment               | 8,578,917               | 8,107,995                               |
| Deposits for pensions (Note 9)                         | 549,428                 | 662,700                                 |
| Impairment of trade and other receivables              | (5,571)                 | (7,176)                                 |
| Discounting of long-term trade and other receivables   | (10,819)                | (19,658)                                |
| Provision for inventory obsolescence                   | (27,532)                | (47,457)                                |
| Discounting of promissory notes                        | (285,559)               | (307,085)                               |
| Other adjustments                                      | (642,099)               | (281,487)                               |
| Unallocated assets                                     | 19,915,151              | 25,854,940                              |
| <b>Total assets (IFRS)</b>                             | <b>215,377,045</b>      | <b>198,470,336</b>                      |

The unallocated assets are the assets which cannot be directly related to the certain operating segment and are also out of the operating segment control for decision making purposes. These assets include intangible assets, short – term and long - term trade receivables (which mainly presented by receivables for sales of electricity and power on the wholesale electric power market), cash in bank, deposits, inventories and items of property, plant and equipment which are subject to the headquarters control.

Management of the Group does not review the information in respect of operating segment's liabilities in order to make a decision about allocation of resources, because of centralisation of significant part of payment transactions.

**Note 31. Events after the reporting date**

There were no significant subsequent events that can influence the Group's financial position, cash flows or operating results which took place during the period between reporting date and date of signing of the Group's consolidated financial statements for the year ended 31 December 2015.

Сброшюровано и пронумеровано

48 листов

Партнер АО «БДО Юникон»

  
С.А. Албу

