RAO ENERGY SYSTEM OF EAST GROUP

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AND AUDITOR'S REPORT

For the year ended as at and for year ended 31 December 2015

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Auditor's Report

To the Shareholders and Board of Directors of Public Joint Stock Company RAO Energy System of East.

We have audited the accompanying consolidated financial statements of Public Joint Stock Company RAO Energy System of East and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for 2015, and notes comprising a summary of significant accounting policies and other explanatory information.

Responsibility of Management of the Audited Entity for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control system as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with applicable ethical requirements and plan and perform the audit to obtain sufficient 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 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 system. An audit also includes 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.

Translation note:

This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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We believe that the audit evidence we have obtained provides a sufficient and appropriate basis to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

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

AO PricewaterhouseCoopers Audit

18 March 2016

Moscow, Russian Federation

T.V. Sirotinskaya, Director (licence no. 01-000527),

AO PricewaterhouseCoopers Audit

Audited entity: Public Joint Stock Company RAO Energy System of East

Certificate of inclusion in the Unified State Register of Legal Entities series 77 №011168014 issued on 01 July 2008

680021, Russian Federation, Khabarovsk, Leningradskaya str., 46

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities № 1027700148431 issued on 22 August 2002

Certificate of membership in self-regulating organisation of auditors № 870, ORNZ 10201003683 in the register of auditors and audit organizations

Translation note:

This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

(in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	7	100,083	90,890
Investments in associates	8	1,113	1,036
Available-for-sale financial assets		262	305
Deferred tax assets	20	1,192	987
Other non-current assets	9	2,223	1,854
Total non-current assets		**104,873**	**95,072**
Current assets			
Cash and cash equivalents	10	10,970	12,572
Income tax receivable		218	244
Accounts receivable and prepayments	11	26,086	23,137
Inventories	12	20,287	19,384
Other current assets		77	101
Total current assets excluding assets of disposal group classified as held for sale		**57,638**	**55,438**
Assets of disposal group classified as held for sale	13	-	311
Total current assets		**57,638**	**55,749**
TOTAL ASSETS		**162,511**	**150,821**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	22,717	22,717
Treasury shares		(410)	(410)
Own shares purchase	14	(2,460)	-
Revaluation reserve		7,995	8,023
Retained losses and other reserves		(17,409)	(13,214)
Equity attributable to shareholders of parent company		**10,433**	**17,116**
Non-controlling interest		5,792	9,972
Total equity		**16,225**	**27,088**
Non-current liabilities			
Deferred tax liabilities	20	2,571	2,817
Non-current debt	15	48,312	45,524
Other non-current liabilities	16	6,885	6,624
Total non-current liabilities		**57,768**	**54,965**
Current liabilities			
Current debt and current portion of non-current debt	15	43,344	32,470
Accounts payable and accruals	18	34,923	29,592
Obligation to purchase own shares	14	2,482	-
Current income tax payable		612	230
Other taxes payable	19	7,157	5,980
Total current liabilities excluding liabilities of disposal group classified as held for sale		**88,518**	**68,272**
Liabilities of disposal group classified as held for sale	13	-	496
Total current liabilities		**88,518**	**68,768**
Total liabilities		**146,286**	**123,733**
TOTAL EQUITY AND LIABILITIES		**162,511**	**150,821**

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО ИНН 2801133630 "РАО Энергетические системы Востока" ОГРН 1087760000052 Хабаровский край, г. Хабаровск

First Deputy General Director – Executive Director N. L. Zapryagaeva

Chief Accountant Y.G. Medvedeva

18 March 2016

The accompanying notes are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	21	162,713	150,286
Government grants	22	14,268	12,413
Other operating income	4	894	64
Expenses (excluding impairment of property, plant and equipment losses)	23	(174,296)	(158,198)
Impairment of property, plant and equipment	7, 16	(1,953)	(1,746)
Operating profit		**1,626**	**2,819**
Finance income	24	2,075	1,438
Finance expenses	24	(10,730)	(6,951)
Share of income/(loss) of associates	8	77	(10)
Loss before income tax		**(6,952)**	**(2,704)**
Income tax (expense)/benefit	20	(566)	523
Loss for the year		**(7,518)**	**(2,181)**
Attributable to:			
Shareholders of the parent company		(3,755)	(1,071)
Non-controlling interest		(3,763)	(1,110)
Loss per ordinary and preference share attributable to the shareholders of the parent company – basic and diluted (in Russian Rubles per share)	25	(0.0842)	(0.024)
Weighted average number of ordinary shares (in millions)	25	42,538	42,538
Weighted average number of preference shares (in millions)	25	2,075	2,075

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Loss for the year		**(7,518)**	**(2,181)**
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss			
Revaluation of property, plant and equipment	7, 16	40	(87)
Remeasurements of pension benefit obligations	17	(932)	1,075
Total items that will not be reclassified to profit or loss		**(892)**	**988**
Total other comprehensive (loss)/income for the year		**(892)**	**988**
Total comprehensive loss for the year		**(8,410)**	**(1,193)**
Attributable to:			
Shareholders of parent company		(4,236)	(547)
Non-controlling interest		(4,174)	(646)

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before income tax		**(6,952)**	**(2,704)**
Depreciation of property, plant and equipment	23	7,624	7,289
Impairment of property, plant and equipment		1,953	1,746
(Profit)/loss from disposal of property, plant and equipment	23	(59)	474
Finance expenses, net	24	8,655	5,513
Profit on disposal of subsidiaries	4	(894)	-
Impairment of accounts receivable	23	3,021	3,635
Share of income/(loss) of associates		(77)	10
Curtailment in pension plan	23	(717)	(501)
Other (income)/expenses		(123)	52
Operating cash flows before working capital changes, income tax paid and changes in other assets and liabilities		**12,431**	**15,514**
Working capital changes:			
Increase in accounts receivable and prepayments		(6,034)	(3,784)
Increase in inventories		(1,103)	(448)
Increase/(decrease) in accounts payable and accruals		4,736	(403)
Increase in other taxes payable		1,242	600
Decrease/(increase) in other current assets		81	(81)
Increase in other non-current assets		(122)	(585)
Increase in other non-current liabilities		83	908
Income tax (paid)/received		(395)	732
Net cash generated by operating activity		**10,919**	**12,453**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(16,693)	(16,722)
Proceeds from sale of property, plant and equipment		319	2,827
Interest received		1,376	593
Investment in loans issued and bank deposits		(3,507)	(869)
Redemption of loans issued and bank deposits		3,510	879
Proceeds from sale of other investments		81	-
Proceeds from sale of subsidiaries		60	-
Net cash used in investing activity		**(14,854)**	**(13,292)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt		71,956	57,154
Repayment of debt		(58,248)	(44,723)
Interest paid		(11,132)	(6,694)
Purchase of additional share in subsidiaries		(13)	-
Finance lease payments		(777)	(634)
Net cash generated by financing activities		**1,786**	**5,103**
Foreign exchange difference influence		547	757
(Decrease)/increase in cash and cash equivalents		**(1,602)**	**5,021**
Cash and cash equivalents at the beginning of the year	**10**	**12,572**	**7,552**
Cash and cash equivalents at the end of the year	**10**	**10,970**	**12,573**

(in millions of Russian Rubles unless noted otherwise)

	Share capital	Treasury shares	Own shares purchase	Revaluation reserve	Revaluation of pension benefit obligations	Retained earnings/ (retained losses)	Total	Non-controlling interest	Total equity
Balance as at 01 January 2014	**22,717**	**(410)**	**-**	**8,131**	**1,326**	**(14,101)**	**17,663**	**10,617**	**28,280**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**(1,071)**	**(1,071)**	**(1,110)**	**(2,181)**
Other comprehensive income/(loss)									
Impairment of revalued property, plant and equipment	**-**	**-**	-	(45)	-	-	(45)	(42)	(87)
Remeasurements of pension benefit obligations	**-**	**-**	-	-	569	-	569	506	1,075
Total other comprehensive income	**-**	**-**	-	(45)	569	-	524	464	988
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**(45)**	**569**	**(1,071)**	**(547)**	**(646)**	**(1,193)**
Transfer of revaluation reserve to retained earnings	-	-	-	(63)	-	63	-	-	-
Dividends declared earlier unclaimed up to expiry date	-	-	-	-	-	-	-	1	1
Balance as at 31 December 2014	**22,717**	**(410)**	**-**	**8,023**	**1,895**	**(15,109)**	**17,116**	**9,972**	**27,088**
Balance as at 01 January 2015	**22,717**	**(410)**	**-**	**8,023**	**1,895**	**(15,109)**	**17,116**	**9,972**	**27,088**
Loss for the year	-	-	-	-	-	(3,755)	(3,755)	(3,763)	(7,518)
Other comprehensive income/(loss)									
Remeasurements of pension benefit obligations	-	-	-	-	(501)	-	(501)	(431)	(932)
Change in revaluation reserve due to impairment and due to changes of reserve for ash dump	-	-	-	20	-	-	20	20	40
Total other comprehensive *loss*	-	-	-	20	(501)	-	(481)	(411)	(892)
Total comprehensive loss for the year	**-**	**-**	**-**	**20**	**(501)**	**(3,755)**	**(4,236)**	**(4,174)**	**(8,410)**
Obligation to own shares purchase	**-**	**-**	(2,460)	-	-	-	(2,460)	-	(2,460)
Transfer of revaluation reserve to retained earnings	-	-	-	(48)	-	48	-	-	-
Change in non-controlling interest related to acquired and disposed subsidiaries	-	-	-	-	-	13	13	(8)	5
Dividends declared earlier unclaimed up to expiry date	-	-	-	-	-	-	-	2	2
Balance as at 31 December 2015	**22,717**	**(410)**	**(2,460)**	**7,995**	**1,394**	**(18,803)**	**10,433**	**5,792**	**16,225**

Note 1. RAO Energy System of East Group and its operations

The Public Joint Stock Company RAO Energy System of East (hereinafter referred to as “the Company”) was incorporated and is domiciled in the Russian Federation, is a joint responsibility of shareholders in the value of their shares and was incorporated under the laws of the Russian Federation (in July 2015 Open Joint Stock Company RAO Energy System of East was renamed in Public Joint Stock Company RAO Energy System of East).

As at 31 December 2015 and 31 December 2014 PJSC RusHydro owns 84.39 percent of the Company. The ultimate controlling party is the Russian Federation. In accordance with decision of Board of Directors PJSC RusHydro 03 November 2015, LLC Vostok-Finance subsidiary of Company sent a voluntary offer to PJSC RAO Energy System of East to purchase shares of the Company. In 2016, based on voluntary offer, LLC Vostok-Finance has purchased 11.11 percent of voting shares of the Company (Notes 14, 30).

Related party transactions are disclosed in Note 6.

The shares of the Company are traded on the Moscow Exchange.

The Company’s registered office is located at 46, Leningradskaya str., Khabarovsk, Russia, 680021.

The principal business activities of the Company and its subsidiaries (hereinafter referred to as “the Group”) are:

- electricity and heat generation;
- electricity and heat distribution;
- electricity and heat retail;
- electricity wholesale.

The Group operates in the Far East Federal region (hereinafter Far East), which comprises Republic of Sakha (Yakutiya), Kamchatka territory, Primorye territory, Khabarovsk territory, Amur region, Magadan region, Sakhalin region, Evreiskaya autonomous district and Chukotka autonomous district and also in the Khanty-Mansi and Yamalo-Nenets autonomous districts.

Principal subsidiaries are disclosed in Note 4.

Relations with the State and current regulation. Many consumers of electricity and heat supplied by the Group are controlled by or affiliated with the Russian Federation. Moreover, the Russian Federation controls a number of fuel suppliers and suppliers of other materials for the Group (Note 6).

The Government affects the Group’s operations through:

- electricity, capacity and heat tariff regulation;
- ratification of the Company and some of subsidiaries investment programs, including volume and sources of their financing, control over their implementation;
- existing antimonopoly regulation.

Tariffs on electricity and heat sold by the Group’s energy companies to the consumers on the retail market are set by regional regulating authorities based on maximum possible tariffs approved by FTS for the relevant period.

Operating environment. 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. During 2015 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country’s economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade.

This operating environment has a significant impact on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results. The liquidity risk is assessed in Note 27.

The Group’s accounts receivable are tested for impairment using the “incurred loss” model required by the International Financial Reporting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how probable those future events are. The final amount of the impairment loss of financial assets may be significantly differ from the current level of provisions (Note 2).

Note 2. Summary of financial reporting framework and significant accounting policies

Basis of preparation. These consolidated financial statements ("Financial statements") have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") and its interpretations. The Financial Statements have been prepared under the historical cost convention, as modified by financial instruments initial recognition of which is measured at fair value, the revaluation of property, plant and equipment and available-for-sale financial assets.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with Russian standards of accounting (hereinafter referred to as "RSA"). The accompanying Financial Statements are based on the statutory records adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Going concern. Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources (Note 27).

Functional and presentation currency. The national currency of the Russian Federation is the Russian Rouble (RR), which is the functional currency of the Group entities and the currency in which these Financial Statements are presented.

Consolidated financial statements. The consolidated financial statement consists of financial statement of the Company and financial statements of its subsidiaries. Subsidiaries are those investees, including structured entities, 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 that 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 are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis a) or at fair value, or b) at the non-controlling interest's proportionate share of net assets of the acquiree.

The non-controlling interest, which is not a present ownership interest, is measured at fair value.

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

Intercompany transactions, balances and unrealised gains on transactions between the Group's entities are eliminated; 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.

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

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest, which do not lead to loss of control. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction directly in Statement of changes in equity.

Acquisition of subsidiaries from parties under common control. Acquisition of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are accounted at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated.

Investments in associates. Associates are entities over which the Company has significant influence (directly or indirectly) but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as a share of a result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, and (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate exceeds its interest in the associates, the current value of such investment is impaired including any other unsecured receivables and the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity, unrealised losses are also eliminated except for transactions providing evidence of an impairment of the asset transferred.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date of loss of control, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions are used to measure fair value of certain financial instruments for which external market pricing information is not available. The Group uses such valuation techniques of fair value which are the most acceptable in the circumstances and as much as possible use the observable basic data.

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 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);
- level 3 measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

For disclosure of information on fair value the Group classified assets and liabilities on the basis of an appropriate level of hierarchy of fair value as it is stated above.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Incremental costs - costs that would not be 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 levied on the transfer of property. Transaction costs do not include premiums or discounts on debt, financing costs, internal administrative costs or storage 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 (directly or through the use of an allowance account) 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 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.

Classification of financial assets. Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Description of financial instruments described below.

Loans and receivables. The Group holds mainly financial assets categorized as "loans and receivables" which are represented by unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. The structure of this category of assets is disclosed in Note 27.

All other financial assets of the Group are included in the *available-for-sale* category, which includes 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 securities prices. The structure of this category of assets is disclosed in Note 27.

Classification of financial liabilities. Financial liabilities have the following measurement categories: a) liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year and b) other financial liabilities. Other financial liabilities are carried at amortised cost. The structure of liabilities carried at amortised cost are presented in Note 27.

Available-for-sale financial assets. Available-for-sale financial assets 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 payment 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 financial assets. 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 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.

Impairment of financial assets carried at amortised cost. A financial asset is impaired only if there is objective evidence of impairment as a result of event that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset 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: (i) any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems; (ii) the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains; (iii) the counterparty considers bankruptcy or a financial reorganisation; (iv) 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 (v) the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the profit or loss for the year.

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 expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the 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.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other current highly liquid investments with original maturities of three months or less in accordance with terms of agreement. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Trade and other receivables. Trade and other receivables are initially recognised at fair value and then carried at amortised cost using the effective interest method.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment 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 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. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Foreign currency. Monetary assets and liabilities, which are held by the Group's entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Rubles 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 translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss for the year as financial income or expenses.

As at 31 December 2015, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between Russian Ruble and US Dollar (hereinafter referred to as "USD") was RR 72.88: USD 1.00 (31 December 2014: RR 56.26: USD 1.00), between Russian Ruble and Euro was RR 79.70: EUR 1.00 (31 December 2014: RR 68.34: EUR 1.00).

Property, plant and equipment. Property, plant and equipment, except for office buildings and construction in progress, are stated at revalued amounts less accumulated depreciation and provision for impairment (where required). Office buildings and land owned by the Group are stated at historic cost. Property, plant and equipment include construction in progress for future use as fixed assets.

Property, plant and equipment are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising from revaluation of property, plant and equipment are credited to other comprehensive income and increase revaluation reserve in equity. Decreases that offset previous increases of caring value of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to the consolidated income statement as an impairment loss. The revaluation surplus included in equity is transferred directly to retained earnings when revaluation surplus is realised on disposal of the asset.

The Group charges deferred tax liabilities directly to other comprehensive income in respect of revaluation of property, plant and equipment that are recorded directly in other comprehensive income.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method over their estimated useful lives.

The estimation of the useful life of a fixed asset is subject to management's judgment, which is formed with the operating experience of similar assets, and other factors. While determining the useful life of an object management considers the expected usage, estimated technical obsolescence, physical depreciation, the terms of guarantees provision as well as the actual conditions of the asset usage. Changes in any of these conditions or estimates may result in adjustments of depreciation charge in future periods, which could affect profit figure as reported in the consolidated financial statements.

The useful lives of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful lives are accounted for as a change in an accounting estimate prospectively.

The revised average useful lives of revalued assets by type of facility, in years, were as follows:

Type of facility	**Average useful life**
Production buildings	25-80
Facilities	10-100
Plant and equipment	5-40
Other	3-30

Impairment of property, plant and equipment. Impairment reviews for property, plant and equipment are carried out when there is an indication that impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts (Note 7). If 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. Fair value less costs to sell represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in consolidated income statement for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been an improvement in the estimates used to determine the asset's recoverable amount.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less cost to sell. Cost of inventory that is expensed is determined on the weighted average basis.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (i) the assets are available for immediate sale in their present condition; (ii) the Group's management approved and initiated an active programme to locate a buyer; (iii) the assets are actively marketed for a sale at a reasonable price; (iv) the sale is expected within one year; and (v) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current and / or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal group as a whole is measured at the lower of carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised. Reclassified financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

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

Disposal groups or non-current assets that ceases to be classified as held for sale are measured at the lower of (i) its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale, and (ii) its recoverable amount at the date of the subsequent decision not to sell.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted at 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 and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for 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. Deferred tax balances are measured at tax rates enacted or substantially enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

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 utilised.

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.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities in respect of undistributed profits of its subsidiaries and jointly controlled companies of the Group as there is no probability that temporary differences will be reversed in the foreseeable future.

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

Debt. Debt is recognised initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly differs from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest rate method.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

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

Interest payments capitalised as part of the cost of an assets are classified as cash outflows from financing activities in Consolidated Statement of Cash Flows.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Pension and post-employment benefits. *Defined benefit pension plans.* The Group also operates a defined benefit plan that covers the majority of its employees. Defined benefit plans estimate 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 net liability recognised in the 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 end of the reporting period less fair value of plan assets.

The defined benefit obligations are calculated by independent actuary 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 pension liabilities.

Actuarial gains and losses arising from remeasurement of pension benefit obligations are recognised in other comprehensive income. Past service cost is immediately recognised in consolidated income statement within operating expenses.

Other liabilities to employees after the termination of their employment. Group pays a one-time financial assistance in connection with the achievement of the employees of the anniversary of age. The size of these payments usually dependent on one or more factors such as age, years of service and minimum wage rates that are used in the Group's companies.

Actuarial gains and losses arising from adjustments and changes in actuarial assumptions for the calculation of liabilities for these types of payments are recognized as income or loss in the consolidated income statement in the period in which they arise. Otherwise the accounting of these obligations is similar to accounting for defined pension benefit obligations.

Defined contribution plans. For defined contribution plans, the Group pays contributions and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. 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 and payroll taxes in the consolidated income statement.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred 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. Each lease payment is allocated between the liability and finance charges so that as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Operating leases. 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.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

Revenue recognition. Revenue is recognised on delivery of electricity and heat, provision of access to capacity, supply of non-utility services, completion of technological connection and on dispatch of goods during the period. Revenue amounts are presented exclusive of value added tax.

Government grants. Grants from the government represent compensation for the expenses incurred in the current period and are recognised as income at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are included in cash flows from operating activities.

Earnings per share. Preference shares cannot be repurchased and are classified as shares participating in profit distribution. The earnings per ordinary share are determined by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group.

Share capital. Ordinary shares and non-cumulative, non-redeemable preference shares with discretionary dividends are both 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 transferred, 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 reissued disposed of or cancelled. 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.

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

Social expenditure. To the extent that the Group's contributions to social programs benefit the community at large without creating constructive obligations to provide such benefits in the future, they are recognised in the consolidated income statement as incurred.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the Consolidated Financial Statements and the carrying 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 recognised 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 of non-financial assets. 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 impairment loss is recognised in the consolidated income statement to the extent it exceeds any previous revaluation surplus held in equity. An impairment loss recognised for an asset in prior years may be reversed if there has been a positive change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Accounting for impairment of non-financial assets includes impairment of property, plant and equipment and investments in associates.

The effect of these critical accounting estimates and assumptions is disclosed in Note 7.

Recognition of deferred tax assets. At each reporting date management assesses recoverability of deferred tax assets arising from operating losses and asset impairments in the context of the current economic environment, particularly when current and expected future profits have been adversely affected by market conditions. Management considers first the future reversal of existing deferred tax liabilities and then considers future taxable profits when evaluating deferred tax assets. The assessment is made on a taxpayer basis.

The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plans of the Group companies prepared by management and extrapolated results thereafter. Management considered the recoverability of recognised deferred tax assets, including those on tax losses carried forward, as probable. The effect of these critical accounting estimates and assumptions is disclosed in Note 20.

Useful life of property, plant and equipment. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets and other factors. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, warranty terms as well as the environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates which can affect the reported income.

Control over subsidiaries. As at 31 December 2015 and 31 December 2014 the Group owns 49.37% of the voting shares of PJSC Yakutskenergo and 49.00% of the voting shares of PJSC Magadanenergo, in spite of this management believes that it has control over the activities of PJSC Yakutskenergo and PJSC Magadanenergo since it is able to provide the majority of votes at the shareholders meeting as besides PJSC RusHydro the remainder of the shares distributed among a large number of shareholders, the individual contribution of each of which is not material.

Reclassifications. Certain reclassifications have been made to prior period data to conform to the current period presentation. These reclassifications are not material.

Note 3. New accounting pronouncements

Adoption of New or Revised Standards and Interpretations. The following new standards and interpretations became effective from 1 January 2015 but did not have any material impact on the Group's consolidated financial statements:

- Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted. These standards and interpretations have been approved for adoption in the Russian Federation unless noted otherwise.

IFRS 9 "Financial Instruments: Classification and Measurement" *(amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).* Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ''three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers *(issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).* The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 16 "Leases" *(issued in January 2016 and effective for annual periods beginning on or after 1 January 2019; this standard has not been approved for adoption in the Russian Federation).* The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

(in millions of Russian Rubles unless noted otherwise)

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods 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 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016; these amendments have not been approved for adoption in the Russian Federation).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017; these amendments have not been approved for adoption in the Russian Federation).
- Disclosure Initiative - Amendments to IAS 7 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017; these amendments have not been approved for adoption in the Russian Federation).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

Note 4. Principal subsidiaries and non-controlling interest

All subsidiaries are incorporated and operate in the Russian Federation. The following are the principal subsidiaries of the Group as at 31 December 2015 and 31 December 2014.

	31 December 2015		31 December 2014	
Name	**Ownership %**	**Voting %**	**Ownership %**	**Voting %**
PJSC DEK	51.08	51.13	51.08	51.13
JSC DGK (subsidiary of PJSC DEK)	51.08	100.00	51.08	100.00
JSC DRSK (subsidiary of PJSC DEK)	51.08	100.00	51.08	100.00
Isolated energy systems:				
PJSC Kamchatskenergo	98.74	98.74	98.74	98.74
PJSC Magadanenergo*	49.00	49.00	49.00	49,00
PJSC Yakutskenergo*	49.37	49.37	49.37	49.37
OJSC Sakhalinenergo	57.82	57.82	55.55	55.55

* Control is based on the ability to secure a majority of votes on the shareholders meeting.

Changes in group structure

During 2015, in accordance with the requirements of the legislation, some subsidiaries of the Group has changed the legal form of ownership, and have been re-registered.

23 March 2015 the Group has sold share in OJSC Daltekhenergo. The consideration amounted to RR 210 million. The Group has received RR 35 million on the date of transaction. The remaining part will be paid by instalments till July 2017. The disposal of the OJSC Daltekhenergo was carried out in accordance with the decision of the Board of Directors of the Company (minutes No. 113 dated 28 November 2014). The amount of net assets of the OJSC Daltekhenergo at the date of disposal was negative and equaled to

(in millions of Russian Rubles unless noted otherwise)

RR 548 million, including borrowings received from the Group amounted RR 400 million. Gain on disposal was recorded in amount of RR 758 million in other operating income.

In second quarter of 2015, management of the Group decided accrual bad debt provision for borrowings issued to OJSC Daltekhenergo amounted RR 425 million, as insolvency court case was initiated.

Also, 24 March 2015 the Group has sold share in OJSC Guberovskiy machinery and repair plant (OJSC GRMZ). The consideration was fully paid in cash and amounted to RR 25 million. The disposal of the OJSC Guberovskiy machinery and repair plant was carried out in accordance with the decision of the Board of Directors of PJSC DEK (minutes No. 230 dated 19 December 2014). The amount of net assets of the OJSC Guberovskiy machinery and repair plant at the date of disposal equaled to RR 3 million. Gain on disposal was recorded in amount of RR 22 million.

In October 2015 the Group has sold share in JSC Kamchatskenergoremont. The consideration was fully paid in cash and amounted to RR 8 million. The disposal of the JSC Kamchatskenergoremont was carried out in accordance with the decision of the Board of Directors of PJSC Kamchatskenergo (minutes No. 21 dated 14 May 2015). The amount of net assets of the JSC Kamchatskenergoremont at the date of disposal was negative equaled to RR 15 million. Gain on disposal was recorded in amount of RR 23 million.

In 2015 LLC Energokomfort, Amur electricity wholesale company and JSC OL Amurskaya pearl were acknowledged as a bankrupts, also in June 2015 OJSC Kamchatskenergoremservis was liquidated. Profit from disposal of LLC Energokomfort, Amur electricity wholesale company, OJSC Kamchatskenergoremservis and JSC OL Amurskaya pearl comprise RR 91 million.

Up to the date of disposal loss from operating activities of subsidiaries disposed amounted to RR 37 million. As a result of disposal non-controlling interest was reduced by RR 8 million.

OJSC Daltehenergo, OJSC Guberovskiy machinery and repair plant and OJSC Kamchatskenergoremservis, JSC Kamchatskenergoremont provided repair and construction services. LLC Energokomfort. Amur electricity wholesale company has sold electricity in Amur region in present this function transferred to PJSC DEK, JSC OL Amurskaya pearl has provided recreation services.

Non-controlling interest. Summarised financial information related to subsidiaries with significant for Group amount of non-controlling interest as at 31 December 2015 and 31 December 2014, are presented below. All subsidiaries operate in the Russian Federation.

	Year ended and as at 31 December 2015		Year ended and as at 31 December 2014	
	DEK Group	**Yakutskenergo Group**	**DEK Group**	**Yakutskenergo Group**
Percent of non-controlling interest	48.92%	50.63%	48.92%	50.63%
Percent of voting rights, attributable to non-controlling interest	48.87%	50.63%	48.87%	50.63%
Profit/(loss), attributable to non-controlling interest	(3,537)	544	(2,073)	713
Changes in other comprehensive income, attributable to non-controlling interest	(295)	(54)	349	55
Carrying value of non-controlling interest	(1,880)	6,207	1,948	5,715
Dividends declared earlier unclaimed up to expiry date	-	2	-	2
Current assets	23,993	12,356	23,606	11,602
Non-current assets	57,183	19,347	55,445	17,816
Current liabilities	54,549	11,935	44,109	10,556
Non-current liabilities	35,095	8,235	35,805	8,566
Revenue	109,327	27,969	100,807	26,929
Profit/(loss)	(8,756)	1,529	(4,311)	1,120
Total comprehensive income/(loss)	(9,402)	1,422	(3,591)	1,229
Cash flows	**(1,005)**	**83**	**(88)**	**25**
Including:				
Cash generated by operating activities	5,592	2,771	7,296	2,278
Cash used in investing activities	(6,078)	(1,593)	(6,951)	(2,263)
Cash generated by financing activities	(519)	(1,095)	(433)	10

The rights of the non-controlling shareholders of the presented subgroups are determined by the Federal Law 'On Joint Stock Companies' and the charter documents of PJSC DEK and PJSC Yakutskenergo.

Note 5. Segment information

Operating segments are components of the Group engaged in operations from which they may earn revenue and incur expenses, including revenue and expenses relating to transactions with other components of the Group. The individual financial information of the segments is available and is regularly reviewed by the chief operating decision maker (CODM) to make operating decisions about resources to be allocated and the performance of segments' operating activities.

CODM analysed information about the Group in respect of five main reporting segments presented by the following separate reportable segments:

- Segment "Subgroup DEK" - PJSC DEK Group's segment includes JSC DGK and JSC DRSK that generate, transport, distribute electricity and heat in Amur region, Khabarovsk territory, Primorye territory, Evreiskaya autonomous district and southern part of the Republic of Sakha (Yakutia),. Other PJSC DEK subsidiaries provide transportation and repair services, modernization and reconstruction of power equipment, and also engaged in the construction of energy facilities and performing service functions.
- Segment "Subgroup Kamchatskenergo" - PJSC Kamchatskenergo segment represents subsidiaries that generate electricity and heat and provide transportation, distribution in the Kamchatka territory.
- Segment "Subroup Magadanenergo" - PJSC Magadanenergo segment represents subsidiaries that generate electricity and heat and provide transportation, distribution in the Magadan region and Chukotka autonomous district.
- Segment "Subgroup Sakhalinenergo" - OJSC Sakhalinenergo segment represents subsidiaries that generate electricity and heat and provide transportation, distribution and in the Sakhalin region.
- Segment "Subgroup Yakutskenergo" - PJSC Yakutskenergo segment represents subsidiaries that generate electricity and heat and provide transportation, distribution in the Republic of Sakha (Yakutiya).

The Group also includes entities supporting Group's operations which are not considered as separate segment by the CODM due to immaterial quantitative data for reporting periods.

Management of operating activities of segments is performed with direct participation of individual segment managers accountable to the CODM. Segment managers on a regular basis submit for approval to the CODM results of operating activities and financial performance of segments. The CODM approves the annual business plan at the level of reportable segments as well as analyses actual financial performance of segments. Management bears responsibility for execution of approved plan and management of operating activities at the level of segments.

The segments' operational results are estimated on the basis of EBITDA, which is calculated as operating profit / loss excluding depreciation of property, plant and equipment and intangible assets, impairment of property, plant and equipment, impairment of accounts receivable, loss on disposal of property, plant and equipment, profit from subsidiary disposal, curtailment in pension plan. This method of definition of EBITDA may differ from the methods applied by other companies. CODM believes that EBITDA represents the most useful means of assessing the performance of ongoing operating activities of the Group and the Group's subsidiaries, as it reflects the earnings trends without showing the impact of certain charges.

Segment information also contains capital expenditures and the amount of debt as these indicators are analysed by the CODM. Intersegment debt's balances are excluded.

Other information provided to the CODM complies with the information presented in the consolidated financial statements.

Sales between segments are on normal commercial terms.

Segment information for the years ended 31 December 2015 and 31 December 2014 and as at 31 December 2015 and 31 December 2014 is presented below.

(in millions of Russian Rubles unless noted otherwise)

Year ended 31 December 2015	Subgroup DEK	Subgroup Kamchatskenergo	Subgroup Magadanenergo	Subgroup Sakhalinenergo	Subgroup Yakutskenergo	Other	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	**176,968**	**11,001**	**11,406**	**8,912**	**37,661**	**4,325**	**250,273**	**(87,560)**	**162,713**
including:									
from external companies:	101,940	10,950	10,863	8,592	27,366	3,002	162,713	-	**162,713**
sales of electricity	62,620	5,084	6,917	6,997	21,727	898	104,243	-	**104,243**
sales of capacity	6,713	-	-	-	-	334	7,047	-	**7,047**
heat sales	20,523	5,658	3,681	1,165	4,202	-	35,229	-	**35,229**
other revenue	12,084	208	265	430	1,437	1,770	16,194	-	**16,194**
from intersegment and intercompany operations	75,028	51	543	320	10,295	1,323	87,560	(87,560)	**-**
Government grants	412	5,705	2,825	850	4,176	300	14,268	-	14,268
Expenses (excluding depreciation and other non-monetary items)	(172,048)	(15,296)	(14,511)	(8,168)	(37,291)	(4,948)	(252,262)	87,835	(164,427)
including:									
from intersegment and intercompany operations	(62,738)	(85)	(412)	(363)	(10,715)	(207)	(74,520)	74,520	-
Other operating income	25	8	-	-	-	210	243		**243**
EBITDA	**5,357**	**1,418**	**(280)**	**1,594**	**4,546**	**(113)**	**12,522**	**275**	**12,797**
Depreciation of property, plant and equipment	(4,878)	(97)	(332)	(681)	(1,282)	(445)	(7,715)	91	**(7,624)**
Other non-monetary items of operating income and expenses	(1,338)	(1,826)	(324)	31	(129)	(9)	(3,595)	48	**(3,547)**
including:									
curtailment in pension plan and pension payment	717	-	-	-	-	-	717	-	**717**
accrual of impairment for accounts receivable, net	(1,132)	(965)	(197)	(82)	(148)	(497)	(3,021)	-	**(3,021)**
profit/(loss) from disposal of property, plant and equipment, net	(51)	(9)	6	113	19	(67)	11	48	**59**
accrual of impairment of property, plant and equipment, net	(904)	(916)	(133)	-	-	-	(1,953)	-	**(1,953)**
profit from subsidiary disposal									
Other operating income	32	64	-	-	-	555	651	-	**651**
Operating profit/(loss)	**(859)**	**(505)**	**(936)**	**944**	**3,135**	**(567)**	**1,212**	**414**	**1,626**
Finance income	-	-	-	-	-	-	-	-	**2,075**
Finance expenses	-	-	-	-	-	-	-	-	**(10,730)**
Share of income of associates	-	-	-	-	-	-	-	-	**77**
Loss before income tax	-	-	-	-	-	-	-	-	**(6,952)**
Total income tax expense	-	-	-	-	-	-	-	-	**(566)**
Loss for the period	-	-	-	-	-	-	-	-	**(7,518)**
Capital expenditure	**7,225**	**938**	**714**	**977**	**2,765**	**6,935**	**19,554**	**-**	**19,554**
31 December 2015									
Non-current and current debt	**(60,329)**	**(6,009)**	**(2,591)**	**(3,489)**	**(9,391)**	**(9,847)**	**(91,656)**	**-**	**(91,656)**

(in millions of Russian Rubles unless noted otherwise)

Year ended 31 December 2014	**Subgroup DEK**	**Subgroup Kamchatskenergo**	**Subgroup Magadanenergo**	**Subgroup Sakhalinenergo**	**Subgroup Yakutskenergo**	**Other**	**Total segments**	**Unallocated adjustments and intercompany operations**	**TOTAL**
Revenue	**163,716**	**10,555**	**10,956**	**7,780**	**36,216**	**3,380**	**232,603**	**(82,317)**	**150,286**
including:									
from external companies:	93,026	10,446	10,447	7,734	26,448	2,185	150,286	-	**150,286**
sales of electricity	57,190	4,524	6,143	6,142	19,309	821	94,129	-	**94,129**
sales of capacity	3,944	-	-	-	-	324	4,268	-	**4,268**
heat sales	19,754	5,618	3,566	1,114	3,862	-	33,914	-	**33,914**
other revenue	12,138	304	738	478	3,277	1,040	17,975	-	**17,975**
from intersegment and intercompany operations	70,690	109	509	46	9,768	1,195	82,317	(82,317)	**-**
Government grants	419	4,418	2,555	716	4,023	282	12,413	-	**12,413**
Expenses (excluding depreciation and other non-monetary items)	(155,903)	(14,133)	(13,177)	(7,203)	(35,354)	(4,028)	(229,798)	82,497	**(147,301)**
including:									
from intersegment and intercompany operations	(59,540)	(131)	(359)	(316)	(11,107)	(92)	(71,545)	71,545	**-**
EBITDA	**8,232**	**840**	**334**	**1,293**	**4,885**	**(366)**	**15,218**	**180**	**15,398**
Depreciation of property, plant and equipment	(4,725)	(149)	(223)	(773)	(1,094)	(420)	(7,384)	95	**(7,289)**
Other non-monetary items of operating income and expenses	(2,912)	(1,277)	(175)	(63)	(686)	(529)	(5,642)	352	(5,290)
including:									
curtailment in pension plan and pension payment	501	-	-	-	-	-	501	-	**501**
accrual of impairment of property, plant and equipment, net	(640)	(963)	(143)	-	-	-	(1,746)	-	**(1,746)**
accrual of impairment for accounts receivable, net	(2,635)	(315)	(37)	(105)	(595)	(40)	(3,727)	92	**(3,635)**
profit/(loss) from disposal of property, plant and equipment, net	(202)	1	5	42	(91)	(489)	(734)	260	**(474)**
profit from subsidiary disposal	64	-	-	-	-	-	64	-	**64**
Operating profit/(loss)	**595**	**(586)**	**(64)**	**457**	**3,105**	**(1,315)**	**2,192**	**627**	**2,819**
Finance income	-	-	-	-	-	-	-	-	**1,438**
Finance expenses	-	-	-	-	-	-	-	-	**(6,951)**
Share of income of associates	-	-	-	-	-	-	-	-	**(10)**
Loss before income tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2 704)**
Total income tax benefit	-	-	-	-	-	-	-	-	**523**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2 181)**
Capital expenditure	**8,116**	**421**	**1,656**	**1,241**	**3,371**	**4,681**	**19,486**	**8,116**	**19,486**
31 December 2014									
Non-current and current debt	**(51,017)**	**(5,666)**	**(2,003)**	**(4,272)**	**(8,566)**	**(6,470)**	**(77,994)**	**-**	**(77,994)**

(in millions of Russian Rubles unless noted otherwise)

Note 6. Related party transactions

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

Government-related entities. In the normal course of business the Group enters into transactions with the entities controlled by the Government. The Group had transactions during the years ended 31 December 2015 and 31 December 2014 and balances outstanding as at 31 December 2015 and 31 December 2014 with a number of government-related banks (Note 15). All transactions are carried out on market rates.

The Group sells electricity, capacity and heat to government-related entities. The Group's sales to government-related entities comprised approximately 35 percent of revenue for the year ended 31 December 2015 as well as for the year ended 31 December 2014. The Group's purchases from government-related entities comprised approximately 20 percent of total expenses on purchased for the year ended 31 December 2015 (for the year ended 31 December 2014: 25 percent).

Transactions with key management of the Group. Remuneration is paid to the members of the Management Board of the Company and the major subsidiaries for their services in full time management positions. The remuneration is made up of a contractual salary and performance bonus depending on the results of the work for the period based on key performance indicators. The compensation and key performance indicators are approved by the Board of Directors.

Remuneration to the members of the Board of Directors of the Company and the major subsidiaries is paid for attending Board of Directors.

Main compensation for key management of the Group generally is short-term excluding future payments under pension plans with defined benefits. Pension benefits for key management of the Group are provided on the same terms as for the rest of employees.

Total remuneration paid to the General directors and the members of the Management Boards and Boards of Directors of the Company and the major subsidiaries for the year ended 31 December 2015 was RR 699 million (for the year ended 31 December 2014: RR 721 million).

Parent company and entities under common control. In the normal course of business the Group enters into transactions with the PJSC RusHydro (parent company) and entities under common control.

At 31 December 2015 and at 31 December 2014 the outstanding balances with PJSC RusHydro and entities controlled by it were as follows:

	31 December 2015	31 December 2014
Accounts receivable and prepayments	62	35
Accounts payable and accruals	1,955	1,203
Non-current debt	21,279	23,073
Current debt	2,357	425

The income and expense items with PJSC RusHydro and entities controlled by it:

	Year ended 31 December 2015	Year ended 31 December 2014
Sales of electricity	221	242
Other revenue	50	110
Fixed assets sales	-	2,754
Expenses	8,455	7,868
Finance expenses	2,815	2,226

(in millions of Russian Rubles unless noted otherwise)

The above balances include the following amounts of transactions and balances with PJSC RusHydro:

	31 December 2015	31 December 2014
Accounts receivable and prepayments	2	2
Accounts payable and accruals	731	715
Non-current debt	21,279	23,073
Current debt	2,357	425

	Year ended 31 December 2015	Year ended 31 December 2014
Other revenue	2	2
Expenses	5,725	5,530
Finance expenses	2,815	2,226

Associates. Outstanding balances with associates were as follows:

	31 December 2015	31 December 2014
Accounts receivable and prepayments	440	293
Accounts payable and accruals	481	351

The income and expenses items with associates:

	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	2,609	2,344
Expenses	465	303

(in millions of Russian Rubles unless noted otherwise)

Note 7. Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

Revalued amount / cost	Production buildings	Facilities	Machinery and equipment	Construction in progress	Other	Total
Opening balance as at 31 December 2014	**27,812**	**58,309**	**53,640**	**18,833**	**7,310**	**165,904**
Revaluation reserve (net)	-	-	(2)	-	-	(2)
Additions	28	598	641	17,809	478	19,554
Transfers	553	4,408	5,001	(10,028)	66	-
Reclassification	141	33	125	-	(299)	-
Disposals	(146)	(228)	(166)	(247)	(204)	(991)
Closing balance as at 31 December 2015	**28,388**	**63,120**	**59,239**	**26,367**	**7,351**	**184,465**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2014	**(12,612)**	**(28,895)**	**(27,907)**	**(2,080)**	**(3,520)**	**(75,014)**
Impairment charge	(204)	(925)	(420)	(966)	(30)	(2,545)
Reversal of impairment	346	94	145	8	-	593
Depreciation charge	(819)	(3,053)	(3,094)	-	(729)	(7,695)
Transfers	(27)	(252)	(249)	528	-	-
Reclassification	(60)	33	(99)	-	126	-
Disposals	50	18	130	11	70	279
Closing balance as at 31 December 2015	**(13,326)**	**(32,980)**	**(31,494)**	**(2,499)**	**(4,083)**	**(84,382)**
Net book value as at 31 December 2015	**15,062**	**30,140**	**27,745**	**23,868**	**3,268**	**100,083**
Net book value as at 31 December 2014	**15,200**	**29,414**	**25,733**	**16,753**	**3,790**	**90,890**

Revalued amount / cost	Production buildings	Facilities	Machinery and equipment	Construction in progress	Other	Total
Opening balance as at 31 December 2013	**26,473**	**51,984**	**48,888**	**16,996**	**6,985**	**151,326**
Revaluation reserve (net)	-	-	(131)	-	-	(131)
Additions	90	1,635	635	16,642	484	19,486
Transfers	1,380	4,801	4,861	(11,187)	145	-
Reclassification from disposal group (Note 13)	(14)	(1)	(50)	(130)	(41)	(236)
Disposals	(117)	(110)	(563)	(3,488)	(263)	(4,541)
Closing balance as at 31 December 2014	**27,812**	**58,309**	**53,640**	**18,833**	**7,310**	**165,904**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2013	**(11,374)**	**(25,652)**	**(24,192)**	**(2,557)**	**(2,911)**	**(66,686)**
Impairment charge	(244)	(452)	(692)	(457)	(7)	(1,852)
Depreciation charge	(831)	(2,600)	(3,222)	-	(728)	(7,381)
Transfers	(260)	(254)	(200)	756	(42)	-
Reclassification from disposal group (Note 13)	12	1	25	92	32	162
Disposals	85	62	374	86	136	743
Closing balance as at 31 December 2014	**(12,612)**	**(28,895)**	**(27,907)**	**(2,080)**	**(3,520)**	**(75,014)**
Net book value as at 31 December 2014	**15,200**	**29,414**	**25,733**	**16,753**	**3,790**	**90,890**
Net book value as at 31 December 2013	**15,099**	**26,332**	**24,696**	**14,439**	**4,074**	**84,640**

Starting from September 2015 the Group has used a new classifier of property, plant and equipment. It led to some reclassifications between groups of fixed assets. These reclassifications were disclosed in lines “Reclassification” in the tables above.

As at 31 December 2015 included in the net book value of the property, plant and equipment are office buildings owned by the Group in the amount of RR 1,989 million (31 December 2014: RR 2,027 million) which are stated at cost.

Assets under construction represent the carrying amount of property, plant and equipment that has not yet been put into operation and advances issued to construction companies and suppliers of property, plant and equipment. As at 31 December 2015 such advances amounted to RR 1,826 million (as at 31 December 2014: RR 2,187 million).

Additions to assets under construction included capitalised borrowing costs in the amount of RR 1,796 million, the capitalisation rate was 12.71 percent (for the year ended 31 December 2014: RR 945 million, the capitalisation rate was 8.98 percent).

Other property, plant and equipment include motor vehicles, land plots, computer equipment, office fixtures and other equipment.

Assets held under finance lease are included in property, plant and equipment with a carrying value of RR 2,144 million as at 31 December 2015 (RR 2,152 million as at 31 December 2014). Assets held under finance lease mainly represented by machinery and equipment.

Assets held under leaseback are included in property, plant and equipment with a carrying value of RR 424 million as at 31 December 2015 (as at 31 December 2014: RR 624 million).

The carrying amount of property, plant and equipment as at 31 December 2015 does not differ materially from their fair value at the end of the reporting period. The Group's management determines the fair value of property, plant and equipment according to the following procedure.

The Group's property, plant and equipment are mainly represented by specialised property: the Group's key assets are represented by unique power generating, heat and grid equipment manufactured under certain technical specifications for each power plant; such equipment is rarely sold in the market.

The Group's management determines the value of the specialised property on a regular basis, using the cost approach. The cost approach is based on the economic concept which implies that a buyer will pay for an asset not more than it would cost to develop or obtain another asset with the same functionality. The total costs of replacement or reproduction of the analysed asset resulting from such measurement are decreased by the amount of physical, functional and economic depreciation.

The replacement costs are determined based on specialised reference books, regulatory documents, construction rates, manufacturer’s prices in effect as of the valuation date; physical and functional depreciation is measured based on the age of the assets, their actual condition and operating mode.

To determine the economic depreciation of specialised assets, the Group's management calculates the recoverable amount using the income approach. It is based on discounted cash flow method, and the Group uses certain assumptions when building the cash flow forecast. In particular, these assumptions are used to determine the expected cash flows, capital expenditures and discount rates for each cash generating unit. The Group's management determines the forecast horizon, and net cash inflows from the asset's operation are calculated for each period of this horizon. The recoverable amount of the cash generating unit is determined by recalculating the discounted net cash flows. The Group's management believes that the Company's branches and subsidiaries constitute separate cash generating units.

When the recoverable amount of the cash generating unit is higher than the replacement cost less physical and functional depreciation of property, plant and equipment included in this cash generating unit, it is concluded that there is no economic depreciation. If this is not the case and if the recoverable amount is less than the carrying amount of cash generating unit, the economic impairment is determined as the difference between the recoverable amount and the carrying amount.

(in millions of Russian Rubles unless noted otherwise)

The following key assumptions were used when the cash flow testing was performed for the years ended 31 December 2015 and 31 December 2014:

Key assumptions used in impairment test	Year ended 31 December 2015	Year ended 31 December 2014
Information used	Actual operating results for the year 2015 and business plans for 2016-2021	Actual operating results for the year 2014 and business plans for 2015-2020
Forecast period	11-25 years (2016-2041)	11-25 years (2015-2040)
Consolidated forecast of electricity and capacity consumption	Based on management forecast of future trends and developments of the business	
Forecast of electricity, capacity and heat tariffs	Based on current system of tariff regulation (RAB, indexing method or “Cost+” method) limited by the Ministry of Economic Development of the Russian Federation	
Forecast of capital expenditures	Based on the management forecasts of maintenance capital expenditures for modernization and reconstruction program	
WACC	15.3-16.8%	15.1-17.8%

Management believes that the forecast period longer than five years is more reliable, as it is expected that the cash flows are not stabilized in the next five years. At the same time forecasting cash flows period is determined by the remaining useful life of tested assets.

Impairment as at 31 December 2015

Management of the Group considered the market and economic environment in which the Group operates to assess whether any indicators of property, plant and equipment being impaired existed, or that an impairment loss recognised in prior periods may no longer exist or may have decreased for each reporting date. As a result of this analysis as at 31 December 2015 such indicators were revealed.

Recoverable amounts of cash-generating units were recalculated, for those where the discounted net cash flows have positive amounts as at 31 December 2015 recoverable amounts of cash-generating units were considered equal to its carrying amount and no additional impairment is determined.

As at 31 December 2015 JSC LUR due to spin-off from JSC DGK was tested on impairment as a separate cash-generating unit. As a result impairment was accrued on property, plant and equipment of JSC DGK through profit and loss in amount of RR 846 million, impairment was reversed in respect for property, plant and equipment of JSC DGK, CGU Primorskaya generation in amount of RR 593 million.

In respect for subsidiaries with negative present value of discounted cash flows as at 31 December 2015 recoverable amount equals to nil with exception for unspecialized property, plant and equipment which have active market and could be sold. Correspondingly impairment loss was accrued for all specialized property, plant and equipment additions performed during the year ended 31 December 2015.

During the period the Group recognised additional impairment loss in the consolidated income statement for JSC Kamchatskenergo RR 858 million, JSC DGK CGU Amurskaya generation RR 651 million, JSC UESK RR 58 million and JSC Chukotenergo RR 133 million.

Impairment as at 31 December 2014

Management of the Group considered the market and economic environment in which the Group operates to assess whether any indicators of property, plant and equipment being impaired existed, or that an impairment loss recognised in prior periods may no longer exist or may have decreased for each reporting date. As a result of this analysis as at 31 December 2014 such indicators were revealed.

Recoverable amounts of cash-generating units were recalculated, for those where the discounted net cash flows have positive amounts as at 31 December 2014 recoverable amounts of cash-generating units were considered equal to its carrying amount and no additional impairment is determined.

Cash-generating units with negative discounted net cash flows as at 31 December 2014 considered having recoverable amounts equal to the cost of non-specialised assets with the price they could be sold in the market, all the carrying amount of specialised assets was charged as economic impairment.

During the period the Group recognised additional impairment loss in the consolidated income statement for PJSC Kamchatskenergo RR 812 million, JSC DGK RR 640 million, JSC UESK RR 152 million and JSC Chukotenergo RR 142 million.

(in millions of Russian Rubles unless noted otherwise)

Additional charge for the consolidated statement of comprehensive income amounted to RR 130 million relates to JSC DGK.

Pledged fixed assets

As at 31 December 2015 no plant and equipment have been pledged as collateral for borrowings (RR 3 million as at 31 December 2014) (Note 15).

Operating lease

The Group leases a number of land areas owned by local governments and production buildings under non-cancellable operating lease agreements. Land lease payments are determined by lease agreements. The future lease payments under non-cancellable operating leases are as follows:

	31 December 2015	31 December 2014
Less than one year	1,713	1,557
Between one year and five years	2,230	2,418
After five years	17,913	18,933
Total	**21,856**	**22,908**

The major parts are the land areas leased by the Group at the territories on which the Group's electric power stations, substations and other assets are located. According to the Land Code of the Russian Federation such land areas are limited in their alienability and cannot become private property. The Group's leases typically run for an initial period of 5 – 49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

Note 8. Investments in associates

The tables below demonstrate the movements in the carrying value of the Group's interests in associates at the years ended 31 December 2015 and 31 December 2014:

Associates	Carrying value as at 31 December 2014	Share of profit / (loss) of associates	Dividends received	Carrying value as at 31 December 2015
OJSC Magadanelectroset	27	(3)	-	24
OJSC ENIN	31	2	(1)	32
OJSC Sakhalinskaya energy company	879	77	-	956
JSC Sakhalinskaya kommunalnaya company	99	2	-	101
Total	**1,036**	**78**	**(1)**	**1,113**

Associates	Carrying value as at 31 December 2013	Share of profit / (loss) of associates	Dividends received	Carrying value as at 31 December 2014
OJSC Magadanelectroset	13	14	-	27
OJSC ENIN	31	-	-	31
OJSC Sakhalinskaya energy company	960	(81)	-	879
JSC Sakhalinskaya kommunalnaya company	42	57	-	99
Total	**1,046**	**(10)**	**-**	**1,036**

In 2015 the annual general shareholders meeting of OJSC ENIN declared dividends to PJSC RAO Energy System of East for 2014. In 2014 Group did not receive dividends from associates.

OJSC "Sakhalin Energy Company" is recognized as associate for the Group as at 31 December 2015 and 31 December 2014, as the Group has its representatives in the Board of Directors of OJSC "Sakhalin Energy Company", which are involved in decision-making and provides specific technical information, relating to capital construction and operation of generating equipment.

As at and for the year ended 31 December 2015 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

(in millions of Russian Rubles unless noted otherwise)

Associates	Ownership, %	Assets	Liabilities	Revenue	Profit / (loss)
OJSC Magadanelectroset	45.91%	528	(476)	1,514	(7)
OJSC ENIN	30.42%	198	(94)	159	4
OJSC Sakhalinskaya energy company	8.01%	12,003	(65)	2	(34)
OJSC Sakhalinskaya kommunalnaya company	255	1,534	(1,128)	2,411	8
Total		**14,263**	**(1,763)**	**4,086**	**(29)**

As at and for the year ended 31 December 2014 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Associates	Ownership, %	Assets	Liabilities	Revenue	Profit / (loss)
OJSC Magadanelectroset	45.91%	502	(443)	1,355	30
OJSC ENIN	30.42%	175	(73)	272	1
OJSC Sakhalinskaya energy company	8.01%	12,035	(1,063)	1	(97)
JSC Sakhalinskaya kommunalnaya company	25%	1,494	(1,096)	2,434	229
Total		**14,206**	**(2,675)**	**4,062**	**163**

Note 9. Other non-current assets

	31 December 2015	31 December 2014
Non-current accounts receivable - financial assets	606	496
Other non-current assets	1,617	1,358
Total other non-current assets	**2,223**	**1,854**

Fair value of non-current accounts receivable approximates its carrying value.

Note 10. Cash and cash equivalents

	31 December 2015	31 December 2014
Cash at bank	4,983	5,176
Deposits less than three months	5,976	7,382
Cash in hand	11	14
Total cash and cash equivalents	**10,970**	**12,572**

The line Cash and cash equivalents as at 31 December 2014 in the Consolidated Statement of Cash Flows included RR 1 million of cash and cash equivalents held by the disposal group classified as held for sale (Note 13).

	Rating*	Rating agency	31 December 2015	31 December 2014
Cash at banks				
PJSC Sberbank	BBB-	Fitch Ratings	3,624	3,673
Bank GPB (JSC)	BB+	Fitch Ratings	1,090	985
PJSC ROSBANK	BBB-	Fitch Ratings	84	114
PJSC Bank FK Otkritie	BB-	Standard & Poor's	46	54
PJSC Kamchatkomargoprombank	-	-	-	164
Other			139	186
Total cash at banks			**4,983**	**5,176**
Bank deposits				
Peresvet Bank	B+	Fitch,Ratings	5,901	6,258
PJSC Sberbank	BBB-	Fitch,Ratings	35	549
PJSC ROSBANK	BBB-	Fitch,Ratings	22	21
JSC Rosselkhozbank	BB+	Fitch,Ratings	16	-
Bank GPB (JSC)	BB+	Fitch,Ratings	-	550
Other			2	4
Total deposits			**5,976**	**7,382**

**Bank ratings as at 31 December 2015.*

(in millions of Russian Rubles unless noted otherwise)

Note 11. Accounts receivable and prepayments

	31 December 2015	31 December 2014
Trade receivables	30,340	26,488
Provision for impairment of trade receivables	(10,544)	(8,907)
Trade receivables, net	**19,796**	**17,581**
Other receivables	2,688	1,707
Provision for impairment of other receivables	(491)	(486)
Other receivables, net	**2,197**	**1,221**
Advances to suppliers and prepayments	2,086	2,583
Provision for impairment of advances to suppliers and other prepayments	(316)	(349)
Advances to suppliers and other prepayments, net	**1,770**	**2,234**
Value added tax recoverable	2,323	2,101
Total accounts receivable and advances given	**26,086**	**23,137**

The majority of trade receivables, which are neither past due nor impaired, could be aggregated in several groups based on similarities in their credit quality: receivables of industrial consumers, public sector entities, population. Major part of the accounts receivable refer to industrial users.

The provision for impairment of accounts receivable has been determined based on specific customer identification, customer payment trends, subsequent receipts and the analysis of expected future cash flows (Note 2). Management of the Group believes that the Group's subsidiaries will be able to realise the net receivable amount and the recorded value approximates their fair value.

Movements in the impairment provision for current trade and other receivables are as follows:

	2015	2014
As at 1 January	9,392	8,353
Charge for the year	3,457	3,608
Reversal of impairment	(1,275)	(1,219)
Trade receivables written-off as uncollectible	(538)	(1,350)
As at 31 December	**11,035**	**9,392**

As at 31 December 2015 current and non-current trade and other receivables in the amount of RR 8,459 million (31 December 2014: RR 6,859 million) were past due but not impaired. These receivables relate to a number of independent customers (without related parties) without recent history of default.

The ageing analysis of these receivables is as follows:

	31 December 2015	Provision as at 31 December 2015	31 December 2014	Provision as at 31 December 2014
Not past due	14,170	(617)	12,208	(104)
Less than 3 months	4,587	(518)	3,829	(82)
More than 3 and less than 12 months	4,967	(1,404)	3,899	(791)
More than one year	9,323	(8,496)	8,418	(8,414)
Total	**33,046**	**(11,035)**	**28,354**	**(9,392)**

Trade and other accounts receivables relates to the Level 3 fair value measurement hierarchy described in Note 2.

The Group does not hold any accounts receivable pledged as collateral.

Note 12. Inventories

	31 December 2015	31 December 2014
Fuel	14,285	13,226
Materials and supplies	4,415	4,531
Spare parts	1,303	1,279
Other materials	338	381
Total inventories, gross	**20,341**	**19,417**
Provision for inventory obsolescence	(54)	(33)
Total inventories	**20,287**	**19,384**

Note 13. Assets and liabilities of a disposal group classified as held for sale

In the end of 2014 the decision management of the Group decided to sell shares of OJSC Daltehenergo and OJSC GRMZ. The selling price was determined by a professional appraiser. As at 31 December 2014 in accordance with management professional judgment the probability of selling of shares OJSC Daltehenergo and OJSC GRMZ was assessed as high, the Group has classified the equity investments in OJSC Daltehenergo and OJSC GRMZ as assets of disposal group held for sale. The shares of OJSC Daltehenergo and OJSC GRMZ was sold on 23 and 24 March 2015 respectively (Note 4).

In May and June 2015 the Board of Directors PJSC DEK has approved the decision to sell shares of OJSC HRSK and OJSC SK Agroenergo at open auction. As as at 30 September 2015 and as at 30 June 2015 the Group has classified the equity investments in OJSC HRSK and OJSC SK Agroenergo as assets of disposal group held for sale. As at 31 December 2015 the intention of potentials buyers in respect of shares purchase was changed. So as at 31 December 2015 the Group does not recognise any assets and liabilities of disposal group held for sale.

Note 14. Equity

		in millions of Russian Rubles		
	Number of outstanding and fully paid shares (in millions)	Ordinary shares	Preference shares	Total share capital
As at 31 December 2015	45,434	21,679	1,038	22,717
As at 31 December 2014	45,434	21,679	1,038	22,717

Company was established on 1 July 2008 and as at 31 December 2015 and as at 31 December 2014 all Company's shares were fully paid (Note 1).

Nominal value per each share equals 0.5 RR for both ordinary and preference share.

Ordinary shares and preference shares. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders meetings of the Company.

Holders of preference shares are entitled to receive annual dividends. Preference shares are entitled to a minimum annual dividend of 10 percent of net statutory profit of the Company divided by number of shares which constitute 25 percent from equity of the Company on the date of state registration of the Company as a legal entity.

The amount of dividends paid on each preference share may not be less than the amount of dividends paid on each ordinary share. If the preferred dividends are not paid or are paid not in full, then the preference shares give their holders the right to vote on all matters within the competence of the general meeting of shareholders, since the meeting following the annual meeting, which, irrespective of the reasons it was decided not to pay dividends or decided on partial payment of preferred dividends. Such a voice is terminated with the first payment of dividends on such shares in full.

Dividends. In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Standards of Accounting. For 2015, the current year net statutory loss for the Company as reported in the published annual statutory reporting forms was RR 2,242 million (2014: RR 4,475 million income) and the closing balance of the accumulated profit including the current year net statutory loss totaled RR 8,869 million (2014: RR 11,111 million). However, legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for distributable reserves in these financial statements.

(in millions of Russian Rubles unless noted otherwise)

Company did not declare dividends relating to years ended 31 December 2014 and 31 December 2013.

Treasury shares. Treasury shares as at 31 December 2015 amount to 820,851,279 ordinary shares in the amount of RR 410 million (31 December 2014: 820,851,279 ordinary shares). The shares were acquired in the process of issuing shares, registered 07 February 2013.

Obligation to own shares purchase. LLC Vostok-Finance subsidiary of the Company on 03 November 2015 in accordance with decision of Board of Directors PJSC RusHydro sent a voluntary offer to PJSC RAO Energy System of East to purchase shares of the Company. As part of the voluntary offer the shareholders of the Company may choose between the sales of common and preferred shares of the Company owned by them or their exchange for ordinary shares of PJSC RusHydro. The Group has reflected the obligation to own shares purchase payable amounted RR 2,460 million as at 03 November 2015. As at 31 December 2015 the obligation to own shares purchase was obligation was revaluated at fair value. As a result, as at 31 December 2015 the obligation to own shares purchase comprised RR 2,482 million, the amount of obligation to own shares purchase in Group's equity comprised RR 2,460 million, revaluation loss amounted RR 22 million was recognised in Consolidated Income Statement. The amount of obligation to own shares purchase was calculated based on the assessment, that all obligation will be repaid in exchange for common shares of PJSK RusHydro. (Note 30).

Note 15. Current and non-current debt

Non-current borrowings

	Effective interest rate	Year of maturity	31 December 2015	31 December 2014
PJSC RusHydro	8.00-9.45%, MosPrime+2.33%, MosPrime+2.96%	2016-2026	23,636	23,498
PJSC Sberbank	7.99-13.20%	2016-2027	13,949	13,781
EBRD	MosPrime+1.50%, MosPrime+3.45%	2016-2025	7,380	6,068
PJSC ROSBANK	10.40-12.34%	2016-2017	4,909	4,481
PJSC Bank VTB	8.39%	2018	4,522	4,522
Bank GPB (JSC)	12.49-14.49%	2016-2018	469	1,179
PJSC Bank Vozrozhdenie	15.00%	2017	440	-
OJSC Bank of Moscow	MosPrime+2.20%	2015	-	7,536
Other	16.00-17.00%	2016-2036	497	587
Finance lease liabilities	9.00-14.10%		2,116	2,133
Total			**57,918**	**63,785**
Less current portion of loans and borrowings	7.70-22.00%		(9,069)	(17,506)
Less current finance lease liabilities			(537)	(755)
Total Non-current borrowings			**48,312**	**45,524**

Current borrowings

	Effective interest rate	31 December 2015	31 December 2014
PJSC Sberbank	11.84-19.00%	19,668	3,610
PJSC ROSBANK	12.00-22.00%	6,776	4,096
Bank GPB (JSC)	12.14-16.80%	5,692	26
Bank «RRDB» (JSC)	12.77-14.00%	966	727
JSC Rosselkhozbank	15.00-17.45%	252	227
PJSC Bank FK Otkritie	12.75-14.50%	154	-
PJSC Bank VTB	7.97-11.00%	-	4,921
JSC Raiffeisenbank	10.84-13.20%	-	598
Other	9.50-12.40%	230	4
Total		**33,738**	**14,209**
Current portion of loans and borrowings	7.70-22.00%	9,069	17,506
Current finance lease liabilities		537	755
Total current borrowings and current part of non-current borrowings		**43,344**	**32,470**

Currency of all non-current and current borrowings is Russian Rubles.

(in millions of Russian Rubles unless noted otherwise)

As at 31 December 2015 and 31 December 2014 some of the Group's credit contracts are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators. The Group fulfilled all of the requirements as at and for years ended 31 December 2015 and 31 December 2014.

Finance lease liabilities. Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2015	570	1,107	4,546	6,223
Less future interest charges	(33)	(476)	(3,598)	(4,107)
Present value of minimum lease payments at 31 December 2015	**537**	**631**	**948**	**2,116**
Minimum lease payments at 31 December 2014	822	1,119	3,169	5,110
Less future interest charges	(67)	(282)	(2,628)	(2,977)
Present value of minimum lease payments at 31 December 2014	**755**	**837**	**541**	**2,133**

Note 16. Other non-current liabilities

	31 December 2015	31 December 2014
Pension benefit obligations	5,276	4,417
Reserve for ash dump	668	589
Other non-current liabilities	941	1,618
Total other non-current liabilities	**6,885**	**6,624**

Other non-current liabilities includes long term accounts payable related to lease back contracts, and non-current advances received under the contracts of technological connection to the grids.

In 2014 decrease in reserve for ash dump obligations due to discount rate rise resulted in impairment reversal recognised in the consolidated income statement in amount of RR 107 million and charge for the consolidated statement of comprehensive income amounted to RR 22 million.

Note 17. Pension benefit obligations

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

Amounts recognised in the Group's Consolidated Statement of Financial Position:

	31 December 2015	31 December 2014
Fair value of plan assets	(205)	(195)
Present value of defined benefit obligations	5,481	4,618
Net liability, including liability of disposal group	**5,276**	**4,423**

As at 31 December 2014 pension benefit obligations includes liabilities of disposal group amounted RR 7 million (Note 13).

Movements in the defined benefit liability for the years ended 31 December 2015 and 31 December 2014 are as follows:

(in millions of Russian Rubles unless noted otherwise)

	Present value of defined benefit obligations	Fair value of plan assets	Total
At 1 January 2015	**4,618**	**(195)**	**4,423**
Decrease in liabilities related to OJSC Daltehenergo sale (Note 4)	(7)	-	(7)
Current service cost	191	-	191
Interest expense/(income)	572	(25)	547
Past service cost	(59)	-	(59)
Curtailment pension payment	(717)	-	(717)
Remeasurement effects (for other long-term benefits):			
Actuarial loss – Change in demographic assumption	5	-	5
Actuarial loss – Change in finance assumption	40	-	40
Actuarial gain – Experience adjustment	(7)	-	(7)
Charged to the profit and loss for the year ended 31 December 2015	**25**	**(25)**	**-**
Remeasurement effects (for post-employment benefits):			
Actuarial loss - Change in demographic assumptions	87	-	87
Actuarial loss - Change in financial assumptions	1,012	-	1,012
Actuarial loss - Experience adjustments	43	23	66
Charged to the other comprehensive income for the year ended 31 December 2015	**1,141**	**23**	**1,164**
Employer contributions for funded pension plan	-	(100)	(100)
Benefit payments (Funding NSPF pensions)	(107)	92	(15)
Benefit payments (Non-funded pension plan)	(190)	-	(190)
At 31 December 2015	**5,481**	**(205)**	**5,276**

	Present value of defined benefit obligations	Fair value of plan assets	Total
At 1 January 2014	**5,931**	**(139)**	**5,792**
Including assets related to the JSC DGK agreements	-	(35)	(35)
Current service cost	261	-	261
Interest expense/(income)	464	(14)	450
Past service cost	103	-	103
Curtailment pension payment	(501)	-	(501)
Curtailment in pension plan	(1)	-	(1)
Remeasurement effects (for other long-term benefits):			
Actuarial loss – Change in demographic assumption	10	-	10
Actuarial gain – Change in finance assumption	(46)	-	(46)
Actuarial loss – Experience adjustment	72	-	72
Charged to the profit and loss for the year ended 31 December 2014	**361**	**(14)**	**348**
Remeasurement effects (for post-employment benefits):			
Actuarial loss - Change in demographic assumptions	72	-	72
Actuarial gain - Change in financial assumptions	(1,600)	-	(1,600)
Actuarial loss - Experience adjustments	180	4	184
Charged to the other comprehensive income for the year ended 31 December 2014	**(1,348)**	**4**	**(1,344)**
Employer contributions for funded pension plan	-	(88)	(88)
Benefit payments (Funding NSPF pensions)	(83)	77	(6)
Benefit payments (Non-funded pension plan)	(243)	-	(243)
At 31 December 2014	**4,618**	**(195)**	**4,423**

On 24 December 2015, JSC DGK decided to partially reduce payments to the unemployed pensioners. Also in accordance with new collective agreement some conditions and the amount of

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benefits to employees have changed. As a result the Group recognized RR 717 million gain for the year ended 31 December 2015 (RR 501 million for the year ended 31 December 2014) (Note 23).

Principal actuarial assumptions are presented below:

	31 December 2015	31 December 2014
Discount rate	9.80%	13.00%
Future salary increases	7.50%	8.50%
Inflation rate	6.00%	7.00%
Staff turnover	Statistical data of the Group for 3 years and employees' age	
Mortality	Russia-2013*	Russia-2011

* *Taking into account the pull down adjustment calculated based on statistical data of mortality for employees of the Group of age till 60 years old for years 2012–2015 (31 December 2014: 2012–2013)*

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2015 is presented below:

Actuarial assumption	Change in assumption	Net liability charge, mln RUR	Net liability charge, %
Discount rate	1%	(492)	(9%)
	-1%	421	8%
Future salary increase rate	1%	97	2%
	-1%	(83)	(2%)
Inflation rate	1%	338	6%
	-1%	(280)	(5%)
Staff turnover	3%	(367)	(7%)
	-3%	556	10%
Mortality	10%	(69)	(1%)
	-10%	75	1%

The Group expects to contribute RR 271 million to the defined benefit plans during the year beginning 01 January 2016.

Weighted average duration of defined benefit obligation of the Group is 10 years.

Pension plan characteristics and related risk. The Group incur defined pension benefit obligations on the territory of the Russian Federation. Pension plan includes following benefits: one time retirement benefits, benefits for funeral expenses in case of death of the employee or retiree, financial assistance for retiree, pensions for former employees paid through the non-state pension fund.

Size of benefits depends on employees' experience, wages in the last years before retirement, a predetermined fixed amount or a combination of these factors.

These benefits are usually indexed to inflation or increase of wage for benefits, which depend on wage rate. Exception is for pensions paid through the non-state pension fund, which are not indexed to inflation on the payment stage (the non-state pension fund bears all risks after retirement).

Besides the inflation risk pension plans of the Group are also subject to risks of death and probability of survival.

Plan assets in the non-state pension fund are regulated by legislation and practice.

The Group and non-state pension fund are responsible for plan management, including investment decisions and contribution schedule.

Non-state pension fund has diversified investment portfolio. All non-state pension fund investments of pension savings and pension reserves are made under the current legislation of the Russian Federation, which strictly regulates possible range of financial instruments and their use limits. These measures are also lead to diversification and reduction of investment risks.

The Group fully conveys to the non-state pension fund obligation to pay lifelong non-state pensions to former employees of the Group, funding those commitments by granting pensions. Thus the Group insures risks associated with payment of private pensions (investment risks and the probability of survival).

(in millions of Russian Rubles unless noted otherwise)

Note 18. Accounts payable and accruals

	31 December 2015	31 December 2014
Trade payables	16,103	15,428
Accounts payable under factoring agreement	4,071	1,376
Other accounts payable	1,648	1,505
Total financial liabilities within accounts payable	**21,822**	**18,309**
Advances received	7,210	6,069
Settlements with personnel	5,885	5,205
Dividends payable	6	9
Total accounts payable and accruals	**34,923**	**29,592**

All accounts payable and accruals are denominated in Russian Rubles.

Payables to suppliers of property, plant and equipment of RR 2,451 million (as at 31 December 2014: RR 2,035 million) included in current accounts payable.

Note 19. Other taxes payable

	31 December 2015	31 December 2014
Value added tax	4,238	3,572
Insurance contribution	1,876	1,517
Property tax	483	437
Other taxes	560	454
Total other taxes payable	**7,157**	**5,980**

Note 20. Income taxes

	Year ended 31 December 2015	Year ended 31 December 2014
Current income tax	(803)	465
Deferred income tax	237	58
Total income tax expense	**(566)**	**523**

During years ended 31 December 2015 and 31 December 2014 most entities of the Group were subject to tax rates of 20 percent on taxable profit.

A reconciliation between the expected and actual income tax expense:

	Year ended 31 December 2015	Year ended 31 December 2014
Loss before tax	**(6,952)**	**(2,704)**
Theoretical income tax charge at statutory tax rate of 20 percent	1,390	541
Tax effect of items which are not deductible or assessable for taxation purposes	(526)	(524)
Increase in other unrecognised deferred tax assets	(1,700)	(567)
Tax losses of previous periods carried forward	(429)	1,422
Other	699	(349)
Total income tax (expense)/income	**(566)**	**523**

Tax effect of items which are not deductible or assessable for taxation purposes relates mainly to the effect on social and charity costs (RR 526 million for the year ended 31 December 2015 and RR 524 million for the year ended 31 December 2014).

The data of adjusted tax declarations for previous periods were accounted for in the year ended 31 December 2014 as a result of cameral tax inspections. Major adjustments relate to tax accounting for additional expenses, decreasing taxable profit, and excluding from tax base for previous periods amounts of special-purpose financing. Tax effect from adjusted tax loss amounted to RR 1,422 million was reported. It includes RR 1,280 million used to decrease current income tax expenses for the year ended 31 December 2014 and RR 142 million increasing deferred tax assets balance as at 31 December 2014.

(in millions of Russian Rubles unless noted otherwise)

Deferred tax assets not recognised in the year ended 31 December 2015 relate mainly to tax loses carried forward. The deferred tax assets are not recognised if recoverability of deferred tax assets is not estimated as high.

Deferred taxes analysis by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 percent.

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may be accrued even where there is a consolidated tax loss.

The tax effect of the movements in the temporary differences for the years ended 31 December 2015 and 31 December 2014 are:

	31 December 2014	**Reclassification (disposal group)**	**Charged to the income statement**	**Charged to the other comprehensive income**	**Subsidiaries disposal**	**31 December 2015**
Deferred income tax liabilities	**(2,817)**	**-**	**141**	**104**	**-**	**(2,571)**
Property, plant and equipment	(4,185)	-	83	(10)	-	(4,112)
Trade and other receivables	(110)	-	106	-	-	(4)
Other	(68)	-	(74)	114	-	(28)
Deferred tax offset	*1,546*	-	*27*	-	-	*1,573*
Deferred income tax assets	**987**	**107**	**96**	**119**	**(116)**	**1,192**
Property, plant and equipment	213	25	22	-	(25)	235
Trade and other receivables	535	11	77	-	(11)	612
Inventory	27	-	(14)	-	-	13
Other long-term liabilities	496	1	29	119	(1)	644
Accounts payable and other taxes payable	334	5	36	-	(5)	370
Tax losses carried forward	479	65	(5)	-	(74)	465
Other	449	-	(23)	-	-	426
Deferred tax offset	*(1,546)*	-	*(27)*	-	-	*(1,573)*

(in millions of Russian Rubles unless noted otherwise)

	31 December 2013	Charged to the income statement	Charged to the other comprehensive income	Reclassification (disposal group)	31 December 2014
Deferred income tax liabilities	**(2,019)**	**(681)**	**(116)**	**-**	**(2,817)**
Property, plant and equipment	(3,325)	(881)	22	-	(4,184)
Trade and other receivables	(51)	(59)	-	-	(110)
Other	(19)	89	(138)	-	(68)
Deferred tax offset	*1,376*	*170*	-	-	*1,546*
Deferred income tax assets	**500**	**739**	**(131)**	**(121)**	**987**
Property, plant and equipment	57	181	-	(25)	213
Trade and other receivables	277	269	-	(11)	535
Inventory	5	22	-	-	27
Other long-term liabilities	528	100	(131)	(1)	496
Accounts payable and other taxes payable	353	(15)	-	(4)	334
Tax losses carried forward	498	59	-	(78)	479
Other	158	293	-	(2)	449
Deferred tax offset	*(1,376)*	*(170)*	-	-	*(1,546)*

Total amount of deductible temporary differences, occurred in separate Group companies, for which deferred income tax assets have not been recognised by the Group comprises RR 36,613 million and RR 25,629 million as at 31 December 2015 and 31 December 2014 respectively.

Corresponding deferred tax assets occurred in separate Group companies, which have not been recognised by the Group increased from RR 5,126 million as at 31 December 2014 to RR 7,323 million as at 31 December 2015 due to increase in tax losses to be carried forward in respect for adjusted tax declarations and current period losses and increase in impairment provision for receivables under financial accounting.

Current portion of deferred tax liabilities in the amount of RR 4 million as at 31 December 2015 (as at 31 December 2014: RR 110 million) and RR 998 million as at 31 December 2015 (as at 31 December 2014: RR 926 million) of deferred tax assets represents the amounts to be recovered during the next year.

Note 21. Revenue

	Year ended 31 December 2015	Year ended 31 December 2014
Sales of electricity and capacity	111,290	98,397
Heat and hot water sales	35,229	33,914
Other revenue	16,194	17,975
Total revenue	**162,713**	**150,286**

Other revenue mainly includes revenue from transportation of electricity and heat, resale of goods, rentals and communication services.

Note 22. Government grants

In accordance with law some subsidiaries are entitled to government subsidies, these government subsidies appropriated for compensation of the difference between approved economically viable electricity and heat tariffs and actual reduced tariffs and for compensation of losses on purchased fuel. During the year ended 31 December 2015 the Group received government subsidies in amount of RR 14,268 million (for the year ended 31 December 2014 in the amount of RR 12,413 million) in the following subsidised territories: Kamchatka territory, Republic of Sakha (Yakutiya), Magadan region and other Far East regions.

(in millions of Russian Rubles unless noted otherwise)

Note 23. Operating expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Fuel expenses	54,043	46,606
Employee benefit expenses (including payroll taxes and pension benefit expenses)	51,460	45,756
Electricity distribution expenses	14,610	14,374
Purchased electricity and capacity	13,787	11,592
Depreciation of property, plant and equipment	7,624	7,289
Other materials	7,041	7,571
Purchase and transportation of heat power	3,102	2,878
Third parties services, including:		
Other third parties services	3,566	3,428
Repairs and maintenance	3,519	2,481
Services of subcontracting companies	1,435	1,605
Rent	1,417	1,267
Security expenses	1,361	1,274
Transportation expenses	791	656
Services of SO-CDU, NP Council Market, CFS	744	717
Consulting, legal and information expenses	649	985
Insurance cost	323	286
Accrual of impairment for accounts receivable and accounts receivable write-off	3,021	3,635
Taxes other than on income	2,360	2,063
Water usage expenses	1,871	1,789
Social charges	739	787
Purchase of oil products for sale	673	425
Travel expenses	421	442
(Profit)/loss on disposal of property, plant and equipment, net	(59)	474
Insurance indemnity	(255)	(290)
Curtailment in pension plan and pension payment	(717)	(501)
Other expenses	770	609
Total expenses	**174,296**	**158,198**

Note 24. Finance income, expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Finance income		
Interest income	1,389	655
Foreign exchange gain	585	778
Finance gain related to discounting	101	-
Other finance income	-	5
Finance income	**2,075**	**1,438**
Finance expense		
Interest expense	(9,710)	(6,178)
Revaluation of obligation to own shares purchase payable	(22)	-
Finance lease expense	(234)	(96)
Finance expense related to discounting	(112)	(126)
Foreign exchange loss	(66)	(21)
Other finance expenses	(586)	(530)
Finance expenses	**(10,730)**	**(6,951)**

Note 25. Earnings per share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to shareholders by the weighted average number of ordinary and preference shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore the diluted earnings per share equal the basic earnings per share.

Profit or losses per share are calculated as follows:

	For the year ended 31 December 2015	For the year ended 31 December 2014
Weighted average number of ordinary shares, in millions	42,538	42,538
Weighted average number of preference shares, in millions	2,075	2,075
Loss attributable to ordinary shareholders of parent company, millions rubles	**(3,755)**	**(1,071)**
Basic and diluted loss per ordinary and preference share from loss attributable to the shareholders of parent Company (in RR per share)	**(0.0842)**	**(0.024)**

Note 26. Contingencies and commitments

Legal proceedings. The Group's subsidiaries are parties 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 contingencies. 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.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

During 2015 the Group's subsidiaries had controlled transactions and transactions which highly probably will be considered by tax authorities to be controlled based on the results of the year 2015. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

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

Environmental matters. The Group's subsidiaries and their predecessor entities have operated in the utilities industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group's subsidiaries periodically evaluate their obligations under environmental regulations.

(in millions of Russian Rubles unless noted otherwise)

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage. The Group recognised environmental provision for ash dump as at 31 December 2015 and 31 December 2014. The amount of environmental provision as at 31 December 2015 RR 683 million, including short term part RR 15 million (RR 621 million as at 31 December 2014, including short term part RR 32 million) (Note 16).

Social commitments. The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates. Management believes that as of the reporting date, the Group has no obligation requiring the creation of a provision.

Capital expenditure commitments. In accordance with separate investment programs of subsidiaries the Group has to invest RR 80,462 million for the period 2016-2018 for reconstruction of the existing and construction of capacities (RR 71,087 million for the period 2015-2017).

Capital commitments of the Group as at 31 December 2015 are as follows: 2016 year – RR 33,984 million, 2017 year – RR 26,452 million, 2018 year – RR 20,026 million.

During the year the investment programmes of the Group companies are reconsidered. Corresponding improvements are approved normally at the year end. Future capital expenditures are mainly related to reconstruction of existed equipment of power plants and grid.

Note 27. Financial instruments and financial risk management

Presentation of financial instruments by measurement category. The following table provides a reconciliation of classes of financial assets with the measurement categories of IAS 39, Financial Instruments: Recognition and Measurement as at 31 December 2015:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets	**606**	**-**	**606**
Non-current accounts receivable	606	-	606
Available-for-sale financial assets	**-**	**262**	**262**
Trade and other receivables (Note 11)	**21,993**	**-**	**21,993**
Trade receivables	19,796	-	19,796
Other receivables	2,197	-	2,197
Cash and cash equivalents (Note 10)	**10,970**	**-**	**10,970**
Total financial assets	**33,569**	**262**	**33,831**
Total non-financial assets	**128,680**	**-**	**128,680**
Total assets	**162,249**	**262**	**162,511**

The following table provides a reconciliation of classes of financial assets with the measurement categories and the Group's maximum exposure to credit risk by class of assets as at 31 December 2014:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets	**496**	**-**	**496**
Non-current accounts receivable	496	-	539
Available-for-sale financial assets	**-**	**305**	**305**
Trade and other receivables (Note 11)	**18,802**	**-**	**18,802**
Trade receivables	17,581	-	17,581
Other receivables	1,221	-	1,221
Cash and cash equivalents (Note 10)	**12,572**	**-**	**12,572**
Total financial assets	**31,870**	**305**	**32,175**
Total non-financial assets	**118,646**	**-**	**118,646**
Total assets	**150,516**	**305**	**150,821**

All of the Group's financial liabilities are initially recognised at fair value, further they are carried at amortised cost. Financial liabilities refer to the measurement category of other financial liabilities and are represented mainly by current and non-current debt (Note 15), trade payables and other accounts payable (Note 18).

Financial risks. The group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk.

The primary objectives of the financial risk management function are providing sufficient confidence in achieving the Group's objectives by establishing a common methodology for the identification, analysis and assessment of risks, establishing risk limits, and then ensuring that exposure to risks stays within these limits and in case of exceeding these limits to impact on the risks.

The Group is exposed to industry risks in particular due to ongoing changes in the utilities industry due to the liberalization of the electricity and capacity markets. To manage the risk the Group seeks to establish favorable legal and regulatory framework for electricity and capacity markets. The Group has been actively involved in the preparation of regulations in the utilities industry, implemented by the Ministry of Energy of the Russian Federation, NP Council Market, FTS.

Credit risk. Credit risk is the risk of financial loss for the Group in the case of non-fulfillment by the contractor of the obligations on the financial instrument under the proper contract. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the table above.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

There is no independent rating for the Group's customers and therefore the Group considers the credit quality of customers at the contract execution stage. The Group considers their financial position and credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection and to minimize losses.

To reduce the credit risk in the electricity and capacity markets the Group has introduced marketing policy and procedure to calculate internal ratings of counterparties at the free contracts market based on the frequency of default, and to establish limits based on the rating of the customer's portfolio.

The Group's management monitors past due balances of receivables and provides ageing analysis and other information about credit risk as disclosed in Note 11.

Financial assets neither past due, nor impaired represented by a pool of different customers, mainly consumers of electricity and heat energy with no history of default and high probability of payments, which credit quality is assessed as high.

Significant part of allowance was created for individually not homogeneous customers based on history of past payments and management's assessment of its recoverability.

Cash has been placed in the financial institutions, which are considered at time of deposit to have minimal risk of default. The Group approves a list of banks for depositing its cash and rules for making such deposits. The Group performs regular assessment of these financial institutions' financial position, monitors their ratings assigned by independent agencies as well as their other performance indicators.

The tables in Note 10 show deposits with banks and other financial institutions and their ratings at the end of the reporting period.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest bearing assets and liabilities all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market fluctuations.

Interest rate risk. The Group's operating profits and cash flows from operating activities are not dependent largely on the changes in the market interest rates. Changes in interest rates impact primarily the fair value of loans and borrowings. The interest rates on most significant loans and borrowings are fixed. However the Group also obtains debt financing with floating rates, which are established on the basis of the MOSPRIME.

(in millions of Russian Rubles unless noted otherwise)

As at 31 December 2015, had interest rates at that date been 3 percent higher (31 December 2014: 6 percent higher), with all other variables held constant, profit for the year ended 31 December 2015 and the amount of capital that the Group managed as at 31 December 2015 would have been RR 538 million (31 December 2014: RR 995 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

The Group monitors interest rates for its financial instruments. Effective interest rates are disclosed in Note 18

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

As at 31 December 2015 the Group`s current assets are less than current liabilities on RR 30,880 million (as at 31 December 2014 current assets were less than current liabilities on RR 12,834 million).

The Group manages liquidity risk as follows:

- tariffs for electricity and heat are set on cost plus basis, which covered the major part of the Group’s expenses;
- the Group received continuing strong support from Government in the form of grants received for compensation of low electricity and heating tariffs;
- the Group considers the possibility of restructuring of current borrowings and loans to postpone the payments and increase liquidity;
- significant part of current liabilities is represented by advances received for future services and electricity supply, which also guarantees the demand on the Group’s products.

The Group carries out liquidity risk measurement considering the fact that in the event of scarcity of funds needed to maintain an adequate level of liquidity, the parent company PJSC RusHydro can provide financial assistance in the form of loans or guarantees.

The table below shows liabilities as at 31 December 2015 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). Such undiscounted cash flows differ from the amount included in the Consolidated statement of financial position because the Consolidated statement of financial position amount is based on discounted cash flows.

The maturity analysis of financial liabilities as at 31 December 2015 is as follows:

	Less than 1 year	**1 and 2 years**	**2 and 3 years**	**3 and 4 years**	**4 and 5 years**	**More than 5 years**
Liabilities						
Current and non-current debt	48,187	14,459	25,129	3,981	3,744	19,656
Trade payables (Note 18)	20,174					
Obligation to purchase own shares	2 482					
Finance lease liabilities	570	433	267	203	203	4,546
Total future payments, including future principal and interest payments	**71,413**	**14,892**	**25,396**	**4,184**	**3,947**	**24,202**

(in millions of Russian Rubles unless noted otherwise)

The maturity analysis of financial liabilities as at 31 December 2014 is as follows:

	Less than 1 year	1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	More than 5 years
Liabilities						
Current and non-current debt	36,952	12,812	4,950	9,425	19,247	16,244
Trade payables (Note 18)	16,805					
Finance lease liabilities	822	441	358	192	128	3,169
Total future payments, including future principal and interest payments	**54,579**	**13,253**	**5,309**	**9,617**	**19,375**	**19,413**
Liabilities of disposal group classified as held for sale	**496**	**-**	**-**	**-**	**-**	**-**

Note 28. Management of capital

Compliance with the Russian legislation requirements is a key objective of the Group's capital risk management.

The following capital requirements have been established for joint stock companies by the legislation of the Russian Federation:

- share capital cannot be lower than one hundred thousand roubles;
- if net assets of the entity are less than share capital at the end of financial year next to the second financial year or every subsequent financial year, at the end of which net assets of the entity are less than share capital, entity must decrease its share capital to the value not exceeding its net assets or make a decision about liquidation of the company;
- if at the end of second financial year or every subsequent financial year net assets of the entity are less than minimum allowed share capital of the entity, such entity is subject to liquidation.

As at 31 December 2015 and 31 December 2014 the Company was in compliance with the above share capital requirements.

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The amount of capital that the Group managed as at 31 December 2015 equal to the Group's net assets was RR 16,225 million (31 December 2014: RR 27,088 million).

Note 29. Fair value of financial assets and liabilities

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 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 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

a) 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.

The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

(in millions of Russian Rubles unless noted otherwise)

	31 December 2015				31 December 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Available-for-sale financial assets	181	-	81	**262**	141	-	164	**305**
Non-financial assets								
Property, plant and equipment (excluding construction in progress, office buildings and land)	-	-	74,091	**74,091**	-	-	71,992	**71,992**
Total assets recurring fair value measurements	**181**	**-**	**74,778**	**74,959**	**141**	**-**	**72,156**	**72,297**

The Group had no liabilities measured at fair value at the Consolidated Statement of Financial Position as at 31 December 2015 and 31 December 2014.

The valuation technique, inputs used in the fair value measurement for significant Level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2015:

	Fair value	Valuation technique	Significant unobservable inputs	Reaso-nable change	Sensitivity of fair value measu-rement
Non-financial assets					
Property, plant and equipment (excluding construction in progress, office buildings and land)	74,091	Discounted cash flows	Production volumes	-0.50%	(2,574)
			Discount rate	0.50%	(4,325)
			Electricity and capacity prices	-1.00%	(6,275)
Total recurring fair value measurements at Level 3	**74,091**				**(13,174)**

The valuation technique, inputs used in the fair value measurement for significant Level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2014:

	Fair value	Valuation technique	Significant unobservable inputs	Reaso-nable change	Sensitivity of fair value measu-rement
Non-financial assets					
Property, plant and equipment (excluding construction in progress, office buildings and land)	71,992	Discounted cash flows	Production volumes	-0.50%	(2,183)
			Discount rate	0.50%	(4,445)
			Electricity and capacity prices	-1.00%	(3,823)
Total recurring fair value measurements at Level 3	**71,992**				**(10,451)**

The above tables discloses sensitivity to valuation inputs for property, plant and equipment as changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly.

There were no changes in valuation technique for Level 3 recurring fair value measurements during the years ended 31 December 2015 and 31 December 2014.

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

Financial assets carried at amortised cost. The Group considers that the fair value of cash, short term deposits (Level 1 of the fair value hierarchy) and accounts receivable (Level 3 of the fair value hierarchy) approximates their carrying value. The fair value of long term accounts receivable is estimated based on future cash flows expected to be received including expected losses (Level 3 of the fair value hierarchy), the fair value of these assets approximates their carrying value.

Liabilities carried at amortised cost. The fair value of floating rate liabilities approximates their carrying value. Fair value of the fixed rate liabilities is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity (Level 3 of the fair value hierarchy).

The fair value of current liabilities carried at amortised cost approximates their carrying value.

As at 31 December 2015 fair value of non-current fixed rate loans and borrowings comprises RR 26,392 million, its carrying value comprises RR 27,970 mln. As at 31 December 2014 fair value of non-current fixed rate loans and borrowings comprised RR 22,689 million, its carrying value comprises RR 26,179 mln.

Note 30. Subsequent events

As at 28 January 2016 PJSC RAO Energy System of East accounted for the shares repurchased from shareholders who voted against decision on approval of large-scale deals or who did not participate in voting within the extraordinary General Shareholders meeting held at 12 November 2015. 22,282,264 ordinary nominal uncertified shares and 3,608,736 preference nominal uncertified shares were repurchased.

As at 03 November 2015 according to PJSC RusHydro Board of Directors decision LLC Vostok-Finance (100% subsidiary of PJSC RAO Energy System of East) offered to PJSC RAO Energy System of East to purchase shares of shareholders effective up to 18 January 2016.

Shareholders accepted terms of the voluntary offer transferred PJSC RAO Energy System of East shares to the account of LLC Vostok-Finance during the period from 19 January 2016 to 02 February 2016. Based on the voluntary offer LLC Vostok-Finance bought 4,707,066,939 ordinary shares and 341 828 698 preference shares of PJSC RAO Energy System of East which amount to 11.11% of voting shares. PJSC RAO Energy System of East shareholders received 2,934,258,766 shares of PJSC RusHydro and RR 30 million as compensation for purchased shares.

The voluntary offer resulted to PJSC RusHydro share in PJSC RAO Energy System of East capital exceeding 95%. According to legislation share in share capital of more than 95% entitles squeeze out to increase RusHydro Group share to 100%, which right PJSC RusHydro is going to exercise.