

PJSC “IDGC of Centre”

**Consolidated Financial Statements
for the year ended 31 December 2015 with
Independent Auditor’s Report**

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THIS IS THE TRANSLATION OF THE ORIGINAL DOCUMENT PREPARED IN RUSSIAN

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

To: the Shareholders of PJSC "IDGC of Centre"

Audited entity:

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

Location: 4, 2nd Yamskaya street, Moscow, 127018, the Russian Federation;

Primary state registration number – 1046900099498.

Auditor:

RSM RUS Ltd.

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

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

Primary state registration number – 1027700257540;

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

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

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

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

Management Board Chairwoman

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

ORNZ – 29605011647

Audit Manager

Audit Certificate No. 05-000086. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 14 February 2012 No. 4. Permanent award.

ORNZ – 21005006455



N.A. Dantser

E.A. Gareeva

PJSC "IDGC of Centre"

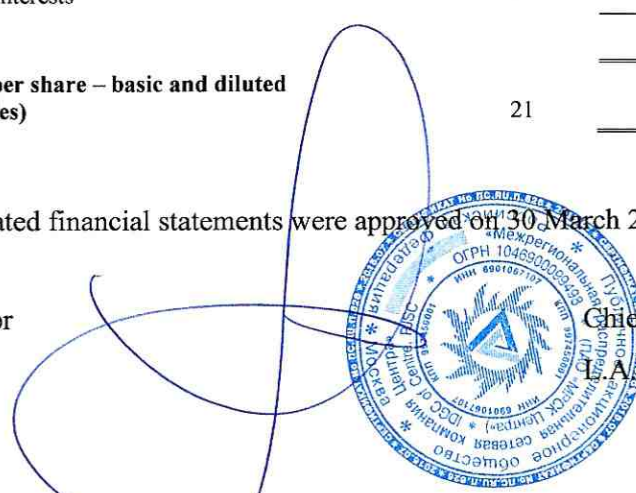
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015

Thousands of Russian Roubles, unless otherwise stated

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	7	80,830,287	86,991,622
Operating expenses	8	(75,204,444)	(88,958,841)
Other income	7	1,448,480	1,199,392
Results from operating activities		7,074,323	(767,827)
Finance income	10	308,245	143,028
Finance costs	10	(4,581,801)	(2,773,539)
Net finance costs		(4,273,556)	(2,630,511)
(Loss) / profit before income tax		2,800,767	(3,398,338)
Income tax benefit / (expense)	11	(1,919,820)	113,817
(Loss) / profit for the year		880,947	(3,284,521)
Other comprehensive income / (expense)			
Net change in fair value of available-for-sale financial assets	15	70,683	(11,533)
Income tax on other comprehensive income		(14,137)	2,307
<i>Total items that are or may be reclassified to profit or loss</i>		56,546	(9,226)
Remeasurements of the net defined benefit liability	24	(181,439)	585,257
Income tax on other comprehensive income		27,476	(43,617)
<i>Total items that will never be reclassified to profit or loss</i>		(153,963)	541,640
Other comprehensive income / (expense) for the year, net of income tax		(97,417)	532,414
Total comprehensive (expense) / income for the year		783,530	(2,752,107)
(Loss) / profit attributable to:			
Owners of the Company		852,807	(3,318,288)
Non-controlling interests		28,140	33,767
		880,947	(3,284,521)
Total comprehensive (expense) / income attributable to:			
Owners of the Company		755,390	(2,785,874)
Non-controlling interests		28,140	33,767
		783,530	(2,752,107)
(Loss) / earnings per share – basic and diluted (in Russian Roubles)	21	0.020	(0.079)

These consolidated financial statements were approved on 30 March 2016:

General Director
O.Y. Isaev



Chief Accountant
G.A. Sklyarova

PJSC "IDGC of Centre"**Consolidated Statement of Financial Position as at 31 December 2015**

Thousands of Russian Roubles, unless otherwise stated

	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	12	77,639,154	73,086,442
Intangible assets	13	1,797,450	590,998
Investments and financial assets	15	673,062	550,639
Other non-current assets	16	65,768	86,794
Total non-current assets		80,175,434	74,314,873
Current assets			
Cash and cash equivalents	17	123,220	395,836
Trade and other receivables	18	16,762,252	16,271,633
Income tax prepayment		1,375,661	1,003,113
Inventories	19	2,012,403	1,808,539
Total current assets		20,273,536	19,479,121
Total assets		100,448,970	93,793,994
EQUITY AND LIABILITIES			
Equity			
Share capital	20	4,221,794	4,221,794
Reserves		(134,911)	(37,494)
Retained earnings		34,672,186	34,647,003
Total equity attributable to equity holders of the Company		38,759,069	38,831,303
Non-controlling interests		127,274	100,359
Total equity		38,886,343	38,931,662
Non-current liabilities			
Loans and borrowings	22	40,435,180	27,670,000
Finance lease liabilities	23	-	1,503
Employee benefits	24	2,344,882	2,051,491
Deferred tax liabilities	14	5,177,990	4,019,997
Trade and other payables	26	380,688	580,143
Total non-current liabilities		48,338,740	34,323,134
Current liabilities			
Loans and borrowings	22	1,676,505	9,609,936
Finance lease liability	23	1,503	82,485
Trade and other payables	26	8,311,537	8,039,441
Provisions	26	1,099,872	1,162,928
Employee payables	25	640,000	641,845
Income tax payable		71	9,369
Other taxes payable	27	1,494,399	993,194
Total current liabilities		13,223,887	20,539,198
Total liabilities		61,562,627	54,862,332
Total equity and liabilities		100,448,970	93,793,994

PJSC "IDGC of Centre"
Consolidated Statement of Changes in Equity for the year ended 31 December 2015
Thousands of Russian Roubles, unless otherwise stated

	Equity attributable to shareholders of the Company						Total equity
	Share capital (Note 20)	Fair value reserve for available-for-sale financial assets	Reserve for remeasurements of defined benefit plans	Retained earnings	Total	Non-controlling interests	
Balance at 1 January 2014	4,221,794	59,211	(629,119)	38,035,501	41,687,387	66,592	41,753,979
(Loss)/profit for the year	-	-	-	(3,318,288)	(3,318,288)	33,767	(3,284,521)
Net change in fair value of available-for-sale financial assets (Note 15)	-	(11,533)	-	-	(11,533)	-	(11,533)
Remeasurements of the net defined benefit liability (Note 24)	-	-	585,257	-	585,257	-	585,257
Income tax on other comprehensive income	-	2,307	(43,617)	-	(41,310)	-	(41,310)
Total comprehensive (expense) / income for the year	-	(9,226)	541,640	(3,318,288)	(2,785,874)	33,767	(2,752,107)
Transactions with owners, recorded directly in equity	-	-	-	(70,210)	(70,210)	-	(70,210)
Dividends (Note 20)	-	-	-	(70,210)	(70,210)	-	(70,210)
Total transactions with owners, recorded directly in equity	-	-	-	(70,210)	(70,210)	-	(70,210)
Balance at 31 December 2014	4,221,794	49,985	(87,479)	34,647,003	38,831,303	100,359	38,931,662
Balance at 1 January 2015	4,221,794	49,985	(87,479)	34,647,003	38,831,303	100,359	38,931,662
(Loss) / profit for the year	-	-	-	852,807	852,807	28,140	880,947
Net change in fair value of available-for-sale financial assets (Note 15)	-	70,683	-	-	70,683	-	70,683
Remeasurements of the net defined benefit liability (Note 24)	-	-	(181,439)	-	(181,439)	-	(181,439)
Income tax on other comprehensive income	-	(14,137)	27,476	-	13,339	-	13,339
Total comprehensive (expense) / income for the year	-	56,546	(153,963)	852,807	755,390	28,140	783,530
Transactions with owners, recorded directly in equity	-	-	-	(827,624)	(827,624)	(1,225)	(828,849)
Dividends (Note 20)	-	-	-	(827,624)	(827,624)	-	(828,849)
Other	-	-	-	-	-	-	-
Total transactions with owners, recorded directly in equity	-	-	-	(827,624)	(827,624)	(1,225)	(828,849)
Balance at 31 December 2015	4,221,794	106,531	(241,442)	34,672,186	38,759,069	127,274	38,886,343

The consolidated statement of changes in equity is to be read in conjunction with the Notes to, and forming part of, the consolidated financial statements 1 - 33.

PJSC "IDGC of Centre"
Consolidated Statement of Cash Flows for the year ended 31 December 2015
Thousands of Russian Roubles, unless otherwise stated

		Year ended 31 December 2015	Year ended 31 December 2014
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit for the year		880,947	(3,284,521)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment and amortisation of intangible assets	8, 12, 13	7,812,923	8,572,361
Loss on impairment of property, plant and equipment	8, 12	728,846	9,056,722
Allowance for impairment of accounts receivable	7, 8	1,504,937	(179,551)
Net finance costs	10	4,273,556	2,630,511
Provision for inventory obsolescence		(3,700)	1,810
Loss on disposal of property, plant and equipment and intangible assets		160,011	342,581
Bad debts written-off	8	245,118	34,951
Income tax expense	11	1,919,820	(113,817)
Adjustment for other non-cash transactions		(796,974)	(353,716)
Cash flows from operating activities before changes in working capital		16,725,484	16,707,331
Change in trade and other receivables		(2,375,811)	(3,495,348)
Change in inventories		(123,830)	261,587
Change in investments, financial assets and other non-current and current assets		(53,674)	5,327
Change in trade and other payables		68,722	(1,330,697)
Change in employee payables		(50,034)	(137,273)
Change in employee benefits		(111,927)	(78,856)
Change in other liabilities		(14,867)	3,962
Change in other taxes payable		501,205	(137,827)
Cash flows from operations before income taxes and interest paid		14,565,268	11,798,206
Interest paid		(4,427,615)	(2,800,649)
Income tax paid		(1,047,863)	(1,038,010)
Cash flows from operating activities		9,089,790	7,959,547
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(13,579,085)	(12,476,557)
Proceeds from disposal of property, plant and equipment and intangible assets		25,684	7,332
Dividends received	10	17,526	25,056
Interest received	10	290,719	117,972
Proceeds from sale of investments		1,934	79
Cash flows used in investing activities		(13,243,222)	(12,326,118)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		26,099,722	11,839,393
Repayment of loans and borrowings		(21,311,491)	(7,689,675)
Dividends paid		(824,930)	(75,666)
Repayment of finance lease liabilities		(82,485)	(426,587)
Cash flows from financing activities		3,880,816	3,647,465
Net (decrease) / increase in cash and cash equivalents		(272,616)	(719,106)
Cash and cash equivalents at beginning of the year		395,836	1,114,942
Cash and cash equivalents at end of the year	17	123,220	395,836

1 BACKGROUND

(a) The Group and its operations

Public Joint-Stock Company "IDGC of Centre" (hereinafter - the "Company") and its subsidiaries (hereinafter together referred to as the "Group") comprise Russian public and joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 17 December 2004 based on Resolution no. 154p of 9 December 2004 and pursuant to the Board of Directors' decision (board of directors' meeting minutes no. 178 of 1 October 2004) and Management Board decision (Management Board minute no. 1102 of 15 November 2004) of Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereinafter - "RAO UES"). From 07 July 2015, OJSC "IDGC of Centre" is renamed as PJSC "IDGC of Centre" based on the Decision of the Annual General Meeting of Shareholders of OJSC "IDGC of Centre" dated 25.06.2015 (minutes No. 01/15 of 26.06.2015), in order to bring it in line with the legal requirements.

The Company's registered office is 2nd, Yamskaya, 4, Moscow, 127018, Russia.

The Company's de facto address is 2nd, Yamskaya, 4, Moscow, 127018, Russia.

The Group's principal activity is the transmission of electricity and the connection of customers to the electricity grid. In 2013 and 2014 pursuant to orders of the Russian Ministry of Energy, "On the transfer of the functions of electricity supplier" the Group was performing power distribution services in several regions it operates (Note 7).

The Group consists of PJSC "IDGC of Centre" and its subsidiaries, presented in Note 5.

As at 31 December 2015 and 31 December 2014, the Government of the Russian Federation owned 85.31% of the shares of PJSC "Russian Grids" (formerly OJSC "IDGC Holding"), which in turn owned 50.23% of the shares of the Company. OJSC "IDGC Holding" was renamed OJSC "Russian Grids" following the decision made on 23 March 2013 at an Extraordinary General Meeting of Shareholders of OJSC "IDGC Holding". OJSC "Russian Grids" was renamed PJSC "Russian Grids" following the decision made on 30 June 2015 at an Extraordinary General Meeting of Shareholders of OJSC "Russian Grids", in order to bring it in line with the legal requirements.

The Government of the Russian Federation influences the Group's activities through setting transmission tariffs.

(b) Russian business environment

The Group's operations are located in the Russian Federation, consequently, the Group is exposed to the economic and financial markets of the Russian Federation. Russia continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2014, the Russian economy was negatively impacted by macroeconomic factors, including devaluation of the Russian Rouble. In December 2014, the Rouble interest rates increased significantly after the Central Bank of Russia raised its key rate. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. In 2015, the situation has leveled off. The Central Bank of Russia has repeatedly reduced the key interest rate; exchange rate fluctuations and inflation have been smoothed. However, risks remain that the combination of economic factors could negatively affect the Group's future financial position, results of operations and business prospects.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements (hereinafter "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRSs", "IASs").

(b) Basis of measurement

The Financial Statements are prepared on the historical cost basis except for available-for-sale financial assets measured at fair value; and property, plant and equipment which was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2007.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the functional currency of the Company and all its subsidiaries, and the currency in which these Financial Statements are presented.

All financial information presented in RUB has been rounded to the nearest thousand.

(d) Use of estimates and judgements

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

- Note 28 – allowances for impairment of trade and other receivables;
- Note 29 – lease classification.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following note:

- Note 12 – determining the recoverable amount of property, plant and equipment;
- Note 24 – employee benefits
- Note 31 – contingencies.

(e) Changes in accounting policies and data presentation

The Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements.

The following new or amended standards are not expected to have a significant impact of the Group’s consolidated financial statements.

- IFRS 14 “Regulatory Deferral Accounts”.
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).
- Equity Method in Separate Financial Statements (Amendments to IAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards.
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).
- Disclosure Initiative (Amendments to IAS 1).

Certain amounts of the previous year have been adjusted to conform with the current year disclosures.

PJSC "IDGC of Centre"

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

Thousands of Russian Roubles, unless otherwise stated

When necessary, comparative information for the prior periods has been reclassified due to the application of the extended data presentation. The quantitative impact of this reclassification on the comparative information specified in the statement for the 12 months of 2015 is set out below.

Consolidated Statement of Profit or Loss and Other Comprehensive Income:

<i>31 December 2014</i>	<i>As previously reported</i>	<i>Effect of change</i>	<i>As restated</i>
Revenue	86,991,622	-	86,991,622
Operating expenses	(88,940,055)	(18,786)	(88,958,841)
Other operating income	1,199,392	-	1,199,392
Results from operating activities	(749,041)	(18,786)	(767,827)
Finance income	124,242	18,786	143,028
Finance costs	(2,773,539)	-	(2,773,539)
Net finance costs	(2,649,297)	18,786	(2,630,511)
Profit before income tax	(3,398,338)	-	(3,398,338)
Income tax expense	113,817	-	113,817
Profit for the period	(3,284,521)	-	(3,284,521)

Consolidated Statement of Cash Flows

<i>31 December 2014</i>	<i>As previously reported</i>	<i>Effect of change</i>	<i>As restated</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit for the year	(3,284,521)	-	(3,284,521)
<i>Adjustments for:</i>			
Depreciation and amortisation	8,572,361	-	8,572,361
Loss on impairment of property, plant and equipment	9,056,722	-	9,056,722
Allowance for impairment of accounts receivable	(179,551)	-	(179,551)
Net finance costs	2,649,297	(18,786)	2,630,511
Provision for inventory obsolescence	1,810	-	1,810
Loss on disposal of property, plant and equipment	342,581	-	342,581
Loss on bad debts written-off	34,951	-	34,951
Income tax expense	(113,817)	-	(113,817)
Adjustments for other non-cash transactions	(353,716)	-	(353,716)
Cash flows from operating activities before changes in working capital	16,726,117	(18,786)	16,707,331

PJSC "IDGC of Centre"

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

Thousands of Russian Roubles, unless otherwise stated

31 December 2014	<u>As previously reported</u>	<u>Effect of change</u>	<u>As restated</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets	(12,476,557)	-	(12,476,557)
Proceeds from disposal of property, plant and equipment	7,332	-	7,332
Dividends received	25,056	-	25,056
Interest received	99,186	18,786	117,972
Proceeds from sale of investments	79	-	79
Cash flows used in investing activities	(12,344,904)	18,786	(12,326,118)

In Note 8 "Operating expenses" information of expenditure items "Communication services" and "Other expenses" was updated:

31 December 2014	<u>As previously reported</u>	<u>Effect of change</u>	<u>As restated</u>
Communication services	44,847	239,719	284,566
Other expenses	2,847,065	(239,719)	2,607,346

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

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

(iii) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

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

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

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

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

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(iv) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(v) Business combinations involving entities under common control

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

(b) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets comprise investments in equity, trade and other receivables, cash and cash equivalents.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables

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

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 16 and Note 18, and cash and cash equivalents as presented in Note 17.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and highly liquid investments with maturities at initial recognition of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value

plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(f)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be reliably measured are stated at cost less impairment losses.

Available-for-sale financial assets comprise equity securities.

(ii) Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

The Group classifies non-derivative financial liabilities into the other financial liability category.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, and trade and other payables.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent expenditure

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment by type of facility are as follows:

- Buildings 7 – 50 years;
- Transmission networks 5 – 40 years;
- Equipment for electricity transformation 3 – 20 years;

- Other

1 – 25 years.

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

(iv) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognised in profit or loss on a straight line basis over the lease term.

(v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

(d) Intangible assets

(i) Intangible assets other than Goodwill

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

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

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

- Computer software 1 – 10 years;
- Other intangible assets 1 – 20 years.

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

(e) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. The cost of inventories is determined using the weighted average cost method.

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

(f) Impairment

(i) Non-derivative financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

Impairment losses on available-for-sale equity securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity securities is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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

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

(g) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(h) Revenue

Revenue from electricity transmission is recognised based on acts of services rendered. The act is prepared in respect of each counterparty in accordance with the concluded contract on the provision of services based on the meter readings and the "boiler" tariffs approved by the Regional Energy Commission of each region of the Group's operations.

Revenue from the sale of electricity is recognized based on:

- monthly acts of acceptance of electricity under the electricity supply agreements (electricity sale agreements) of legal entities based on the meter readings and unregulated prices formed on the retail market in the settlement period;
- monthly documents (receipts) on the consumption of utilities services by individuals based on the meter readings and tariffs approved by the Regional Energy Commission.

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The tariffs for connection services are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services. Revenue is recognised when electricity is activated and the customer is connected to the grid network or, for contracts where connection services are performed in stages, revenue is recognised in proportion to the stage of completion when an act of acceptance is signed by the customer.

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

(i) Finance income and costs

Finance income comprises interest income on cash balances and bank deposits and dividend income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, employee benefits and finance leases. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualified asset are recognised in profit or loss using the effective interest method.

(j) Income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its

accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefits plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

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

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

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations as at reporting date and that are denominated in the same currency in which the benefits are expected to be paid.

The Group calculates obligation in respect of other long-term employee benefits using the projected unit credit method. Remeasurements are recognised in profit or loss in the period in which they arise.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and if the obligation can be estimated reliably.

(l) Share capital

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

(m) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(n) Segment reporting

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

Segment results that are reported to the Management Board, the Group's operating decision making body, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(o) Service Concession Arrangements

The Group applies IFRIC Interpretation 12 "Service Concession Arrangements" (IFRIC 12) to public-to-private service concession arrangements if:

- the grantor controls or regulates what services the Group must provide with the infrastructure, to whom it must provide them, and at what price; and
- the grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Group accounts for revenue and costs relating to construction services in accordance with IAS 11 and accounts for revenue and costs relating to electricity transmission in accordance with IAS 18.

The consideration for construction or upgrade services received or receivable by the Group is recognised at its fair value.

The Group recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services; the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

The Group recognizes an intangible asset to the extent that it receives a right to charge users of the public service.

As to the financial asset - the amount receivable from the grantor or by his orders, is accounted for in accordance with IAS 39:

- a loan or account receivable;
- financial asset, available-for-sale; or
- financial asset measured at fair value through profit or loss if on initial recognition the criteria for such classification are met.

The Group recognizes an intangible asset in accordance with IAS 38. Paragraphs 45–47 of IAS 38 provide guidance on measuring intangible assets acquired in exchange for a non-monetary asset or assets or a combination of monetary and non-monetary assets. Amortization period is defined as a duration of the Service Concession Arrangements. The Group tests the intangible asset for impairment in accordance with IAS 36.

The Group capitalizes the borrowing costs attributable to the construction stage of the Service Concession Agreement as part of an intangible asset, in accordance with IAS 23. The Group recognizes other borrowing costs attributable to the Service Concession Agreement as an expense in the period in which they are incurred.

(p) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2015, and have not been applied in preparing Consolidated Financial Statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments". The final version of IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of the standard on the consolidated financial statements.
- IFRS 14 "Regulatory Deferral Accounts" will come into effect for annual periods beginning on or after 1 January 2016. The new standard specifies the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. The Group has not yet analysed the likely impact of the standard on its financial position or performance.
- IFRS 15 "Revenue from Contracts with Customers" will come into effect for annual periods beginning on or after 1 January 2018. The new standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The Group has not yet analysed the likely impact of the standard on its financial position or performance.
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible assets" - Clarification of Acceptable Methods of Depreciation and Amortisation. The amendments clarify that a revenue-based method is not considered to be an appropriate manifestation of consumption. The amendments are applicable to annual periods beginning on or after 1 January 2016, early application permitted. The Group does not expect the amendments to have material impact on its financial position and performance.
- IFRS 16 "Leases" is effective for annual reporting periods beginning on or after 1 January 2019, earlier application is permitted if IFRS 15 "Revenue from Contracts with Customers" is also adopted. IFRS 16 replaces the existing lease accounting guidance in IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.
- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2016. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 MEASUREMENT OF FAIR VALUES

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

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

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

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

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the Note 28.

5 SUBSIDIARIES

List of subsidiaries

	Country of incorporation	31 December 2015 Ownership/voting, %	31 December 2014 Ownership/voting, %
JSC "Sanatorium "Energetic"	Russian Federation	100	100
JSC "Yaroslavl Electric Grid Company"	Russian Federation	51	51
OJSC "Yargorelectroset"	Russian Federation	-	100
OJSC "Energy Service Company"	Russian Federation	-	100
CJSC "Innovation and energy efficiency center"	Russian Federation	51	51

In September 2014, the Company as the sole shareholder of OJSC "Yargorelectroset" took the decision to liquidate OJSC "Yargorelectroset" on a voluntary basis. On 15 April 2015 OJSC "Yargorelectroset" was liquidated. Power grid facilities and other property of OJSC "Yargorelectroset" providing transmission of electricity and the connection of customers to the electricity grid were transferred to the Company, as the sole shareholder.

On 8 July 2015, OJSC "Yaroslavl Electric Grid Company" was renamed JSC "Yaroslavl Electric Grid Company" following the decision made on 26 June 2015 at the Annual General Meeting of Shareholders of OJSC "Yaroslavl Electric Grid Company" (Minutes of 26.06.2015 №01/15) in order to bring it in line with the legal requirements.

On 7 October 2015, OJSC "Energetic" was renamed JSC "Sanatorium "Energetic" following the decision of the sole shareholder of OJSC "Energetic" made on 07.09.2015 (Minutes of 07.09.2015 №30/15) in order to bring it in line with the legal requirements.

In August 2014, OJSC "Energy Service Company" in court has been declared bankrupt. Bankruptcy administration procedure started in the Company, bankruptcy trustee was appointed. The Group believes that as at 31.12.2015, there are no signs of control in accordance with IFRS 10 "Consolidated financial statements" including the ability to obtain information necessary for the exercise of their powers (including financial and other information required to determine the value of assets and liabilities under IFRS), the ability to use their powers over the company to affect the amount of returns, as well as the opportunity to participate in decisions regarding the financial and operating policies of the company, and other signs.

6 OPERATING SEGMENTS

The Group has eleven reportable segments representing branches of the Company, as described below. These are the Group's strategic business units and are the Company's branches. The strategic business units offer similar services representing transmission of electric power and connection services and are managed separately. In addition in 2013 and 2014 five divisions (Bryanskenergo, Kurskenergo, Oryolenergo, Tverenergo and Smolenskenergo) were performing electricity supplier functions (see Note 7). For each of the strategic business units, the Management Board, the Group's operating decision making body, reviews internal management reports on at least a quarterly basis.

"Others" include operations of subsidiaries and the head office branch. None of them meets any of the quantitative thresholds for determining reportable segments in 2015 or 2014.

PJSC "IDGC of Centre"

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

Thousands of Russian Roubles, unless otherwise stated

Information regarding the results of each reportable segment is included below. Performance is measured based on segment earnings before interest expense, income tax and depreciation and amortisation – EBITDA, as included in the internal management reports that are reviewed by the Management Board.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the consolidated financial statements prepared under IFRS. The reconciliation of items measured as reported to the Management Board with similar items in these Financial Statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

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Thousands of Russian Roubles, unless otherwise stated

(i) Information about reportable segments

As at and for the year ended 31 December 2015:

	Belgorod- energo	Bryansk- energo	Voronezh- energo	Kostroma- energo	Kurskenergo	Lipetsk- energo	Orelenergo	Smolensk- energo	Tambov- energo	Tverenergo	Yarenergo	Others	Total
Revenue from electricity transmission	12,607,530	4,360,490	10,916,421	4,038,658	6,463,925	8,690,451	3,713,089	5,895,553	4,682,304	8,655,622	7,709,567	-	77,733,610
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	271,907	271,907
Revenue from connection services	220,818	6,775	166,922	88,265	47,168	73,751	15,431	121,330	27,497	146,805	244,940	9,877	1,169,579
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Revenue from the resale of electricity and capacity	-	-	-	-	-	-	-	-	-	-	-	-	-
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue	283,677	63,267	125,515	39,146	44,464	49,889	26,810	97,658	32,803	47,042	111,736	57,494	979,501
Inter-segment revenue	-	-	-	-	-	-	-	-	7	-	1,879	1,080	2,966
Total revenues	13,112,025	4,430,532	11,208,858	4,166,069	6,555,557	8,814,091	3,755,330	6,114,541	4,742,611	8,849,469	8,068,122	340,358	80,157,563
Results from operating activities *	1,508,592	(104,771)	1,218,138	531,302	(70,983)	494,331	25,831	543,789	527,365	12,360	1,206,497	68,569	5,961,020
Finance income	55,003	18,061	36,767	11,431	25,664	31,921	10,089	16,114	13,413	20,869	27,955	383	267,670
Finance costs	(548,929)	(261,246)	(425,134)	(160,177)	(213,442)	(244,505)	(183,424)	(546,161)	(339,300)	(872,337)	(400,781)	(617)	(4,196,053)
Reportable segment profit/(loss) before income tax	1,014,666	(347,956)	829,771	382,556	(258,761)	281,747	(147,504)	13,742	201,478	(839,108)	833,671	68,335	2,032,637
Depreciation and amortisation	2,328,771	433,077	888,751	519,230	736,880	1,090,534	354,751	819,981	375,267	641,162	871,070	23,590	9,083,064
EBITDA	3,892,366	346,367	2,143,656	1,061,963	691,561	1,616,786	390,671	1,379,884	916,045	674,391	2,105,522	92,542	15,311,754
Reportable segment assets	25,217,202	5,775,222	12,107,095	5,803,309	7,956,006	15,828,331	3,963,374	8,408,157	5,856,921	13,353,323	11,784,898	2,162,169	118,216,007
Property, plant and equipment	22,822,085	4,216,036	10,547,947	5,109,597	6,812,465	13,413,772	3,332,402	6,373,143	4,840,169	8,421,744	9,393,616	266,383	95,549,359
Reportable segment liabilities	3,178,274	778,149	1,810,589	640,100	1,280,912	1,295,351	501,086	1,050,065	718,218	3,452,364	1,488,808	45,480,069	61,673,985
Capital expenditure	3,485,441	247,608	1,264,008	667,243	498,737	1,055,919	376,231	1,113,232	1,268,320	1,586,389	1,371,434	56,725	12,991,287

* Results from operating activities include other income and expense of reportable segment

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As at and for the year ended 31 December 2014:

	Belgorod- energo	Bryansk- energo	Voronezh- energo	Kostroma- energo	Kurskenergo	Lipetsk- energo	Orelenergo	Smolensk- energo	Tambov- energo	Tverenergo	Yarenergo	Others	Total
Revenue from electricity transmission	12,204,685	5,106,101	10,346,290	3,934,141	6,438,951	8,678,176	3,529,061	5,502,236	4,427,750	8,389,922	7,306,497	-	75,863,810
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	40,564	995,265	1,035,829
Revenue from connection services	159,611	19,343	285,777	59,930	181,724	77,260	24,882	72,114	31,483	481,640	101,501	150,783	1,646,048
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	277	-	277
Revenue from the resale of electricity and capacity	-	2,402,744	-	-	1,085,336	-	199,646	2,443,200	-	2,169,181	-	-	8,300,107
Inter-segment revenue	251,544	37,952	108,624	33,496	45,655	36,427	50,382	300,382	30,225	65,882	43,774	140,821	1,145,164
Other revenue	-	-	-	-	-	-	-	-	-	-	-	806	14,109
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	12,615,840	7,566,140	10,740,691	4,027,567	7,751,666	8,791,863	3,803,971	8,317,932	4,489,458	11,106,625	7,493,419	1,300,978	88,006,150
Results from operating activities *	1,235,767	173,435	1,487,681	513,118	204,457	1,416,784	281,065	476,177	399,447	280,021	790,871	213,131	7,471,954
Finance income	18,962	13,317	16,404	5,440	3,070	9,566	3,434	7,235	5,746	8,909	14,572	5,914	112,569
Finance costs	(446,047)	(120,487)	(124,467)	(121,706)	(141,438)	(198,971)	(129,173)	(285,254)	(253,057)	(420,627)	(260,373)	(26,491)	(2,528,091)
Reportable segment profit/(loss) before income tax	808,682	66,265	1,379,618	396,852	66,089	1,227,379	155,326	198,158	152,136	(131,697)	545,070	192,554	5,056,432
Depreciation and amortisation	2,379,470	406,900	783,229	463,967	688,261	980,669	332,551	745,726	347,287	577,225	669,703	152,113	8,527,101
EBITDA	3,634,199	593,652	2,287,314	982,525	895,788	2,407,019	617,050	1,229,138	752,480	866,155	1,475,146	371,158	16,111,624
Reportable segment assets	24,046,307	6,487,241	11,654,200	5,571,269	8,052,605	15,605,393	3,873,774	7,461,880	4,807,245	11,774,838	9,378,979	5,150,768	113,864,499
Property, plant and equipment	21,654,953	4,422,038	10,130,359	4,968,252	6,794,083	13,413,666	3,274,458	5,995,960	3,940,803	7,216,175	7,341,990	2,015,541	91,168,278
Reportable segment liabilities	2,887,735	532,660	1,602,265	635,450	996,833	1,304,414	548,178	1,110,442	633,441	3,118,306	1,259,725	41,568,123	56,197,572
Capital expenditure	2,456,658	515,098	1,399,971	681,720	905,219	1,812,887	605,753	1,086,722	521,280	1,118,648	1,071,982	205,298	12,381,236

* Results from operating activities include other income and expense of reportable segment

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(ii) Major customer

In 2015 revenue from one customer of the Group's segment (Belgorodenergo) represented approximately 9% (RUB 6,991,523 thousand) of the Group's total revenue (in 2014 - RUB 8,581,739 thousand or 10% of the Group's total revenue).

(iii) Reconciliations of reportable segment revenues, profit or loss and assets and liabilities

Reconciliation of key segment items measured as reported to the Management Board with similar items in these Consolidated Financial Statements is presented in the tables below.

Revenues	Year ended	Year ended
	31 December 2015	31 December 2014
Total revenue for reportable segments	80,157,563	88,006,150
Elimination of inter-segment revenue	(274,873)	(1,051,021)
Reclassification	947,597	36,493
Consolidated revenue	80,830,287	86,991,622

	Year ended	Year ended
	31 December 2015	31 December 2014
EBITDA for the reportable segments	15,311,754	16,111,624
Loss on impairment of property, plant and equipment	(728,846)	(9,056,722)
Adjustments for property, plant and equipment	(109,966)	(125,416)
Recognition of assets related to employee benefit fund	53,674	30,016
Recognition of employee benefit obligations	111,927	78,856
Adjustment for finance lease	82,858	429,014
Adjustment for allowance for impairment of account receivables	(29,880)	20,564
Provision for inventory obsolescence	(165)	756
Amortisation of intangible assets	202,065	287,973
Adjustment for litigation provision	-	-
Other adjustments	302,070	170,897
Consolidated earnings before interest, tax and depreciation and amortisation (EBITDA)	15,195,491	7,947,562
Depreciation and amortization	(7,812,923)	(8,572,361)
Interest expenses	(4,352,520)	(2,512,823)
Interest on finance lease liabilities	(5,402)	(72,463)
Interest expense on employee benefit obligations	(223,879)	(188,253)
Interest income	-	-
Income tax expense	(1,919,820)	113,817
(Loss) / profit for the year per Consolidated Statement of Profit or Loss and Other Comprehensive Income	880,947	(3,284,521)

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Assets	31 December 2015	31 December 2014
Total assets for reportable segments	118,216,007	113,864,499
Loss on impairment of property, plant and equipment	(728,846)	(9,056,722)
Elimination of cost of investments in subsidiaries	(17,295)	(1,117,395)
Elimination of other inter-segment assets	(33,025)	(418,391)
Adjustments for net book value of property, plant and equipment	(17,181,359)	(9,023,891)
Recognition of assets related to employee benefit fund	438,693	385,019
Adjustment for allowance for impairment of account receivables	-	29,880
Provision for inventory obsolescence	(1,717)	(1,495)
Adjustment for deferred tax	(1,203,808)	(1,022,384)
Other adjustments	960,320	154,874
Consolidated total assets	100,448,970	93,793,994

Liabilities	31 December 2015	31 December 2014
Total liabilities for reportable segments	61,673,985	56,197,572
Elimination of inter-segment liabilities	(34,852)	(417,168)
Adjustment for finance lease	1,503	83,988
Recognition of employee benefit obligations	2,344,882	2,051,491
Adjustment for deferred tax	(2,346,030)	(2,999,413)
Other adjustments	(76,861)	(54,138)
Consolidated total liabilities	61,562,627	54,862,332

7 REVENUE AND OTHER INCOME

For the year ended 31 December, revenue includes:

	Year ended 31 December 2015	Year ended 31 December 2014
Electricity transmission	77,733,610	69,110,930
Revenue from the resale of electricity and capacity	-	15,052,987
Connection services	1,169,579	1,646,048
Repairs and maintenance	311,300	476,209
Rent	55,313	66,953
Service Concession Arrangements	972,341	-
Other	588,144	638,495
	80,830,287	86,991,622

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network.

In 2013 pursuant to orders of the Russian Ministry of Energy, "On the transfer of the functions of electricity supplier" the Company started to perform the functions of electricity supplier in Bryansk, Oryol, Kursk, Tver and Smolensk regions. Hence, in addition to performing power transmission services, some divisions of the Company commenced performing power distribution services, including purchasing electricity on the wholesale market and selling it on the retail market, and entering into power purchase agreements with all customers, including householders. The period within which the functions of electricity supplier are to be performed was established prior to the effective date of the decision to provide the tender winner with the electricity supplier status in the abovementioned operating areas, but not more than 12 months. In the first half of 2014 following the decision of the Russian Ministry of Energy function of electricity supplier in Bryansk, Orel, Kursk, Tver and Smolensk regions was transferred from the Company to OJSC

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"AtomEnergoSbyt", LLC "TEK-Energo" and the subsidiary of OJSC "Inter RAO UES". Since February 2014 the Company started performing the function of electricity supplier in the area of LLC "Tveroblenergosbyt" in Tver region.

There is no revenue from the resale of electricity and capacity in 2015 (in 2014, revenue from the resale of electricity and capacity includes the part of revenue of RUB 6,752,880 thousand related to transmission of electricity which is sold under power supply contracts). Tariff for sale of electricity under power supply contracts is calculated taking into account the transmission fee.

Revenue under the Service Concession Arrangement is the consideration for the services related to the construction of objects of the Service Concession Arrangement, subject to receipt by the Group, and represented the rights to the intangible asset. The consideration payable is recognised at its fair value (Note 13).

For the years ended 31 December, other income includes:

	Year ended 31 December 2015	Year ended 31 December 2014
Income from gratuitously received property, plant and equipment (including excess inventory)	714,565	413,156
Income in the form of fines and penalties	292,346	188,383
Net income from reversal of allowance for impairment of accounts receivable	-	179,551
Income in the form of the cost of inventories obtained by disposal of property, plant and equipment	126,071	115,378
Income from reimbursement of costs and damages	82,240	94,298
Income from the identified non-contractual electricity consumption	72,959	90,127
Compensation of insurance claims	52,980	41,342
Write-off of accounts payable	20,871	26,017
Revenues from gratuitously received inventories (including excess inventory)	127	-
Other	86,321	51,140
	1,448,480	1,199,392

8 OPERATING EXPENSES

	Year ended 31 December 2015	Year ended 31 December 2014
Electricity transmission	26,435,032	26,530,346
Personnel costs (Note 9)	17,798,496	16,684,669
Purchased electricity to compensate for losses	10,640,307	10,056,845
Depreciation and amortisation	7,812,923	8,572,361
Raw materials and supplies	2,666,635	2,600,372
Allowance for impairment of accounts receivable	1,504,937	-
Taxes other than income tax	1,074,812	882,910
Costs of Service Concession Arrangements	875,983	-
Loss on impairment of property, plant and equipment	728,846	9,056,722
Losses of previous years	630,319	1,430,683
Rent	549,588	524,064
Repairs, maintenance and installation services	510,017	512,312
Information services	338,715	271,969
Electricity for own needs	323,364	380,473
Security	298,700	307,732
Provisions	277,947	378,272
Communication services	274,352	284,566
Bad debt written-off	245,118	34,951

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	Year ended 31 December 2015	Year ended 31 December 2014
Insurance	144,460	124,945
Consulting, legal and audit services	41,734	162,532
Transportation costs	8,184	5,921
Target contributions and membership fee	3,106	8,410
Electricity for resale	-	7,540,440
Other expenses	2,020,869	2,607,346
	75,204,444	88,958,841

Allowance for impairment of accounts receivable recognized in the reporting period relates to impairment of trade receivables from the companies with which there is disagreement on electricity transmission, as well as companies with outstanding resale of electricity and capacity.

Costs under Service Concession Arrangements represent the Group's construction costs of objects of the Service Concession Arrangement (Note 13).

Loss on impairment of fixed assets recognized during the period is determined as a result of testing of the Group's assets for economic impairment (Note 12).

9 PERSONNEL COSTS

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries and wages	11,544,584	11,035,870
Contribution to the state pension fund	2,757,467	2,610,454
Compulsory social security contributions	1,075,075	941,900
Unused vacation provision	997,806	790,065
Finance aid	615,511	574,821
Remuneration to management provision	247,672	148,988
Current service cost (Note 24)	73,905	107,212
Past service cost (Note 24)	6,680	24,002
Remeasurements of other long term benefits (Note 24)	-	(34)
Other personnel costs	479,796	451,391
	17,798,496	16,684,669

The average number of employees (including production and non-production staff) in 2015 was 29,677 (in 2014: 30,337 employees).

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10 FINANCE INCOME AND COSTS

	Year ended 31 December 2015	Year ended 31 December 2014
Finance income		
Interest income	290,719	117,972
Dividends	17,526	25,056
	308,245	143,028
Finance costs		
Interest expense	4,352,520	2,512,823
Interest on finance lease liabilities	5,402	72,463
Interest expense on employee benefits obligation (Note 24 b)	223,879	188,253
	4,581,801	2,773,539

11 INCOME TAX BENEFIT/EXPENSE

The Group's applicable tax rate is the income tax rate of 20%. For the years ended 31 December income tax benefit / (expense) is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Current tax expense		
Current year	(943,326)	(1,022,131)
Adjustment for prior years	194,838	81,889
	(748,488)	(940,242)
Deferred tax expense		
Origination and reversal of temporary differences	(1,171,424)	1,056,727
Change in tax base of property, plant and equipment	92	(2,668)
	(1,171,332)	1,054,059
	(1,919,820)	113,817

In 2015, the Group recalculated the profit tax for prior periods (2013-2014), as a result of resolving differences with contractors in the trial and the pre-trial order. As a result, income tax overprovided in prior periods, in accordance with the adjusted tax declarations submitted to the tax authorities, amounted to RUB 194,838 thousand.

Income tax recognised in other comprehensive income

	Year ended 31 December 2015			Year ended 31 December 2014		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Remeasurements of available-for-sale financial assets	70,683	(14,137)	56,546	(11,533)	2,307	(9,226)
Reserve for remeasurements of defined benefit plans	(181,439)	27,476	(153,963)	585,257	(43,617)	541,640
	(110,756)	13,339	(97,417)	573,724	(41,310)	532,414

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Reconciliation of profit before income tax is as follows:

	Year ended		Year ended	
	31 December 2015	%	31 December 2014	%
(Loss) / profit before income tax	2,800,767	100	(3,398,338)	100
Income tax expense at applicable tax rate	(560,153)	(20)	679,668	(20)
Adjustment for prior periods	194,838	7	81,889	(2)
Change in the tax base of property, plant and equipment	92	-	(2,668)	-
Net tax effect of expenses not deductible/not taxable for taxation purposes	(1,554,597)	(56)	(645,072)	19
	(1,919,820)	(69)	113,817	(3)

12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transmission networks	Equipment for electricity transformation	Other	Construction in progress	Total
<i>Deemed cost</i>						
Balance at 1 January 2014	24,509,284	44,507,969	25,253,138	14,698,795	4,358,006	113,327,192
Reclassification between groups	(4,672)	38,966	80,233	(114,527)	-	-
Additions	60,265	268,223	83,550	5,056	12,359,461	12,776,555
Transfers	2,970,784	5,816,856	2,850,649	1,409,831	(13,048,120)	-
Disposals	(5,129)	(50,631)	(237,311)	(333,399)	(90,137)	(716,607)
Balance at 31 December 2014	27,530,532	50,581,383	28,030,259	15,665,756	3,579,210	125,387,140
Balance at 1 January 2015	27,530,532	50,581,383	28,030,259	15,665,756	3,579,210	125,387,140
Reclassification between groups	1,093,197	(1,120,604)	30,133	(2,726)	-	-
Additions	83,849	526,143	151,900	179	12,343,409	13,105,480
Transfers	2,890,902	4,808,431	3,503,354	1,088,507	(12,291,194)	-
Disposals	(9,096)	(35,932)	(25,340)	(214,672)	(152,644)	(437,684)
Balance at 31 December 2015	31,589,384	54,759,421	31,690,306	16,537,044	3,478,781	138,054,936
<i>Accumulated depreciation and impairment</i>						
Balance at 1 January 2014	(5,280,452)	(16,443,278)	(6,843,569)	(6,686,151)	-	(35,253,450)
Reclassification between groups	(1,892)	(20,044)	(18,408)	40,344	-	-
Depreciation for the period	(1,499,176)	(3,148,426)	(1,631,712)	(1,996,508)	-	(8,275,822)
Disposals	2,190	28,318	87,148	167,640	-	285,296
Impairment	(1,804,219)	(4,080,386)	(1,969,657)	(626,627)	(575,833)	(9,056,722)
Balance at 31 December 2014	(8,583,549)	(23,663,816)	(10,376,198)	(9,101,302)	(575,833)	(52,300,698)
Balance at 1 January 2015	(8,583,549)	(23,663,816)	(10,376,198)	(9,101,302)	(575,833)	(52,300,698)
Reclassification between groups	(316,050)	147,860	(165,737)	108,575	225,352	-
Depreciation for the period	(1,302,092)	(2,923,034)	(1,599,690)	(1,764,112)	-	(7,588,928)
Disposals	3,538	30,694	18,459	123,038	26,961	202,690
Impairment	(12,210)	(364,282)	(217,028)	10,780	(146,106)	(728,846)
Balance at 31 December 2015	(10,210,363)	(26,772,578)	(12,340,194)	(10,623,021)	(469,626)	(60,415,782)
<i>Net book value</i>						
At 1 January 2014	19,228,832	28,064,691	18,409,569	8,012,644	4,358,006	78,073,742
At 31 December 2014	18,946,983	26,917,567	17,654,061	6,564,454	3,003,377	73,086,442
At 31 December 2015	21,379,021	27,986,843	19,350,112	5,914,023	3,009,155	77,639,154

As at 31 December 2015 construction in progress includes prepayments for property, plant and equipment of RUB 2,782 thousand (as at 31 December 2014: RUB 10,090 thousand) and inventories for the construction of property, plant and equipment of RUB 334,349 thousand (as at 31 December 2014: RUB 177,948 thousand).

Borrowing costs totalling RUB 274,810 thousand with a capitalisation rate of 8.75-18% during 2015 (2014: RUB 225,974 thousand with a capitalization rate of 7.25-11.4%) were included in the cost of property, plant and equipment and represent interest on loans.

Leased property, plant and equipment

As at 31 December 2015, the Group leases transportation vehicles (as at 31 December 2014 - transportation vehicles and equipment for electricity transformation) under a finance lease agreements. Title to the leased assets transfers to the Group at the end of lease.

As at 31 December 2015 and 31 December 2014 the net book value of leased property, plant and equipment, accounted for as part of the Group's property, plant and equipment, was as follows:

	Equipment for electricity transformation	Other	Total
Cost	8,188	552,062	560,250
Accumulated depreciation	(2,877)	(130,748)	(133,625)
Net book value at 31 December 2014	5,311	421,314	426,625
Cost	-	32,663	32,663
Accumulated depreciation	-	(14,247)	(14,247)
Net book value at 31 December 2015	-	18,416	18,416

Impairment of property, plant and equipment

Due to the negative impact of macroeconomic factors on Russian economy the Group performed a test for impairment of property, plant and equipment as at 31 December 2015 and 31 December 2014.

As a result of the impairment test as at 31 December 2015 loss on impairment of property, plant and equipment was recognized in the amount of RUB 1,970,041 thousand for "Lipetskenergo" (as at 31 December 2014 in the amount of RUB 9,056,722 thousand, including RUB 1,242,721 thousand for "Kurskenergo", RUB 7,682,624 thousand for "Lipetskenergo", RUB 131,377 thousand for "Yarenergo" with OJSC "Yargorelectroset"), thus loss recognized as at 31 December 2014 and partially amortized was reversed in the amount of RUB 1,241,195 thousand, including RUB 1,107,744 thousand for "Kurskenergo", RUB 119,101 thousand for "Yarenergo".

Division	Impairment at 31 December 2014	Depreciation and disposals during 2015	Recognized impairment at 31 December 2015	Reversal of impairment at 31 December 2015	Impairment at 31 December 2015
Kurskenergo	1,242,721	(134,977)	-	(1,107,744)	-
Lipetskenergo	7,682,624	(635,213)	1,970,041	(14,350)	9,003,102
Yarenergo	131,377	(12,276)	-	(119,101)	-
Total	9,056,722	(782,466)	1,970,041	(1,241,195)	9,003,102

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

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Therefore, the values in use for property, plant and equipment as at 31 December 2015 and as at 31 December 2014 were determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

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

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

- cash flows were predicted on the basis of the provisions of the guidelines for the testing of power grid assets for impairment (approved by the Order of PJSC “Russian Grids” No. 583p of 15.12.2015 and forecast data for the period up to 2020);
- forecast cash flows were prepared for the period 2016-2020 for all the CGUs and were based on the best estimate of the Group’s Management in respect of the transmission volumes, operating and capital expenditures and tariffs approved by regulatory bodies for 2016;
- distribution tariffs for forecasted period were estimated using business plans, amended and approved by PJSC “Russian Grids” which were based on the tariff models prepared taking into account annual average growth of tariffs for electricity transmission services (in accordance with “The socio-economic development of the Russian Federation for 2016 and the planning period of 2017-2018”). Tariffs growth rates in 2019-2020 are restricted by inflation rates according to Ministry of Economic Development of the Russian Federation (till 2030);
- forecasted transmission volumes for all CGUs were determined based on the Company’s business plans for 2016-2020;
- the cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 11.31% (2014: 11,16%);
- growth rate of the net cash flows amounted to 2.6% in the post-forecasted period.

Quantitative information on significant unobservable inputs used in assessing value in use, are disclosed below:

	2016	2017	2018	2019	2020
Growth rate of necessary gross revenue to the previous year	7.74%	4.56%	5.10%	6.91%	6.56%
Productive supply (“boiler”), million KWh	56,847	52,788	48,394	48,741	49,066
Inflation forecast of the MED	8.28%	6.68%	5.50%	4.00%	3.50%
The level of capital investment, millions of Russian Roubles	6,718	7,503	9,357	9,147	10,478

Sensitivity analysis for key assumptions for PJSC “IDGC of Centre” is presented below:

- increase of discount rate by 1% increases impairment loss by RUB 213,017 thousand;
- reduction of necessary gross revenue to the base value in each period by 3% increases impairment loss by RUB 3,243,817 thousand;
- increase of operating expenses level to the base value in each period by 5% increases impairment loss by RUB 4,322,170 thousand;
- increase of capital investment level in the forecasted and post-forecasted period by 10% increases impairment loss by RUB 265,234 thousand.

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13 INTANGIBLE ASSETS

	Software	Research and development	Other intangible assets	Total
Cost				
Balance at 1 January 2014	380,981	77,030	966,705	1,424,716
Reclassification between groups	-	(68,547)	68,547	-
Additions	174,136	31,673	86,735	292,544
Disposals	(140,621)	(20,836)	(462,081)	(623,538)
Balance at 31 December 2014	414,496	19,320	659,906	1,093,722
Balance at 1 January 2015	414,496	19,320	659,906	1,093,722
Reclassification between groups	513,937	-	(513,937)	-
Additions	433,264	24,591	972,592	1,430,447
Disposals	(400,545)	-	-	(400,545)
Balance at 31 December 2015	961,152	43,911	1,118,561	2,123,624
Accumulated amortisation				
Balance at 1 January 2014	(164,754)	-	(644,041)	(808,795)
Amortisation for the period	(146,100)	-	(150,439)	(296,539)
Disposals	140,606	-	462,004	602,610
Balance at 31 December 2014	(170,248)	-	(332,476)	(502,724)
Balance at 1 January 2015	(170,248)	-	(332,476)	(502,724)
Reclassification between groups	(287,650)	-	287,650	-
Amortisation for the period	(202,065)	-	(21,930)	(223,995)
Disposals	400,545	-	-	400,545
Balance at 31 December 2015	(259,418)	-	(66,756)	(326,174)
Net book value				
At 1 January 2014	216,227	77,030	322,664	615,921
At 31 December 2014	244,248	19,320	327,430	590,998
At 31 December 2015	701,734	43,911	1,051,805	1,797,450

In 2015, the intangible assets of the Group (subgroup "Other intangible assets") include a right to charge fee from users of services on electricity transmission in accordance with "Service Concession Arrangement concerning the financing, establishment and operation of facilities for the transmission and distribution of electric energy on the territory of the Tambov region". This agreement provides for the construction by a Group of objects for the purposes of transmission and distribution of electricity in the Tambov region and the provision of transmission services, electricity distribution and connection services with the use of objects of the Service Concession Arrangement. Ownership of the constructed objects belongs to the Tambov region, and the Group receives the right of possession and use of objects for the Group activities. The Service Concession Arrangement is concluded for 20 years. The calculation of long-term gross revenue from transmission of electricity produced by the parties taking into account the planned change of tariffs provided by the Forecast "The socio-economic development of the Russian Federation for 2016 and the planning period of 2017-2018" and should be reviewed annually. Thus during the term of the Service Concession Arrangement the administration of Tambov region can provide the Group with subsidies in terms of payment of the consideration for construction of objects, and in part compensation for lost revenue from electricity transmission. The group is obliged to support the objects of the agreement in good condition, produce for own account current and capital repairs, to cover the costs for facility maintenance. At the end of the term of the agreement the Group has the right to redeem the objects of the agreement pursuant to the Federal Law of 21 December 2001 № 178-FZ "On privatization of state and municipal property".

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The intangible asset is recognized at fair value of the consideration receivable by the Group for the construction of objects of the Service Concession Arrangement in the amount of RUB 972,341 thousand (Note 7). The construction costs amounted to RUB 875,983 thousand (Note 8). Profit from construction of objects of the Service Concession Arrangement was recognized by the Group in the amount of RUB 96,358 thousand.

14 DEFERRED TAX ASSETS AND LIABILITIES**a) Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Property, plant and equipment	-	11,288	(6,669,266)	(5,232,829)	(6,669,266)	(5,221,541)
Intangible assets	-	-	(19,271)	-	(19,271)	-
Investments and financial assets	-	-	(87,739)	(77,004)	(87,739)	(77,004)
Inventories	600	1,340	-	-	600	1,340
Trade and other receivables	833,035	604,998	-	-	833,035	604,998
Finance lease liabilities	301	16,798	-	-	301	16,798
Loans and borrowings	-	-	(3,964)	(758)	(3,964)	(758)
Post-employment benefit liability	247,613	210,119	-	-	247,613	210,119
Provision for employee payables	126,216	116,578	-	-	126,216	116,578
Trade and other payables	393,352	329,034	-	-	393,352	329,034
Other	1,272	439	(139)	-	1,133	439
Deferred tax assets/(liabilities)	1,602,389	1,290,594	(6,780,379)	(5,310,591)	(5,177,990)	(4,019,997)

b) Movements in temporary differences during the period

	1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2015
Property, plant and equipment	(5,221,541)	(1,272,528)	-	(6,494,069)
Intangible assets	-	(194,468)	-	(194,468)
Investments and financial assets	(77,004)	3,402	(14,137)	(87,739)
Inventories	1,340	(740)	-	600
Trade and other receivables	604,998	228,037	-	833,035
Finance lease liabilities	16,798	(16,497)	-	301
Loans and borrowings	(758)	(3,206)	-	(3,964)
Post-employment benefit liability	210,119	10,018	27,476	247,613
Provision for employee payables	116,578	9,638	-	126,216

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	1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2015
Trade and other payables	329,034	64,318	-	393,352
Other	439	694	-	1,133
	(4,019,997)	(1,171,332)	13,339	(5,177,990)

	1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2014
Property, plant and equipment	(6,583,546)	1,362,005	-	(5,221,541)
Investments and financial assets	(71,001)	(8,310)	2,307	(77,004)
Inventories	978	362	-	1,340
Trade and other receivables	864,367	(259,369)	-	604,998
Finance lease liabilities	115,471	(98,673)	-	16,798
Loans and borrowings	(1,644)	886	-	(758)
Post-employment benefit liability	248,057	5,679	(43,617)	210,119
Provision for employee payables	151,970	(35,392)	-	116,578
Trade and other payables	247,172	81,862	-	329,034
Other	(4,570)	5,009	-	439
	(5,032,746)	1,054,059	(41,310)	(4,019,997)

15 INVESTMENTS AND FINANCIAL ASSETS

	31 December 2015	31 December 2014
Assets related to the employee benefit fund	438,693	385,019
Available-for-sale financial assets	234,369	165,620
	673,062	550,639

Financial assets related to the employee benefit fund relate to the Group's contributions accumulated in the solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). These assets are not assets of the plan, because under the terms of existing agreements with the Fund the Group is able to use the above contributions to reduce future contributions, or for compensation through the funding of other plans, or transfer to another fund on its own initiative (recoverable amount is 80%).

Available-for-sale financial assets represent investments in shares of JSC E.ON Russia and other securities, which are listed on CJSC "MICEX Stock Exchange", recorded at fair market value (belong to Level 1 in the fair value hierarchy). In 2015 the Group recognized gain on revaluation of available-for-sale financial assets in the amount of RUB 70,683 thousand as a component of other comprehensive income (2014: impairment loss RUB 11,533 thousand).

The Group's exposure related to credit risks and impairment losses related to financial assets is disclosed in Note 28.

16 OTHER NON-CURRENT ASSETS

	<u>31 December 2015</u>	<u>31 December 2014</u>
Trade accounts receivable	21,825	36,944
Trade accounts receivable impairment allowance	(489)	-
Non-current prepayments	3,250	7,319
Other accounts receivable	41,182	6,229
Other accounts receivable impairment allowance	-	(382)
Other assets	-	36,684
	<u>65,768</u>	<u>86,794</u>

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash in bank accounts in the amount of RUB 123,220 thousand (as at 31 December 2014: RUB 395,836 thousand).

18 TRADE AND OTHER RECEIVABLES

	<u>31 December 2015</u>	<u>31 December 2014</u>
Trade receivables	26,718,559	24,358,108
Trade receivables impairment allowance	(11,335,201)	(10,323,204)
Other receivables	1,299,127	1,357,777
Other receivables impairment allowance	(501,482)	(181,567)
Total financial assets	<u>16,181,003</u>	<u>15,211,114</u>
Prepayments	212,160	445,028
Prepayments impairment allowance	(93,886)	(1,383)
VAT recoverable	405,315	416,952
Prepaid taxes other than income tax	57,660	199,922
	<u>16,762,252</u>	<u>16,271,633</u>

For more detailed information concerning the Group's exposure to credit risks and impairment losses related to trade and other receivables refer to Note 28.

19 INVENTORIES

	<u>31 December 2015</u>	<u>31 December 2014</u>
Materials and supplies	1,182,517	1,810,693
Other inventories	832,887	4,547
Total inventories	<u>2,015,404</u>	<u>1,815,240</u>
Less: provision for inventory obsolescence	(3,001)	(6,701)
Total	<u>2,012,403</u>	<u>1,808,539</u>

20 EQUITY

(a) Share capital

	Ordinary shares	
	31 December 2015	31 December 2014
Issued shares, fully paid, number	42,217,941,468	42,217,941,468
Par value of one share (in RUB)	0.10	0.10

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

At the annual shareholders meeting held on 26 June 2014 the decision was made to distribute the Company's profit for the year 2013 to dividends in the amount of RUB 75,992 thousand and to pay dividends for the year 2013 in the amount of RUB 0.0018 per ordinary share of the Company in cash.

At the annual shareholders meeting held on 26 June 2015 the decision was made to distribute the Company's profit for the year 2014 to dividends in the amount of RUB 831,693 thousand and to pay dividends for the year 2014 in the amount of RUB 0.0197 per ordinary share of the Company in cash.

In 2015, the Company recovered unclaimed dividends for 2011 in the amount of RUB 4,069 thousand (in 2014 – in the amount of RUB 5,782 thousand for 2010).

21 LOSS / EARNINGS PER SHARE

The calculation of earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period. The Company has no dilutive potential ordinary shares.

	Ordinary shares	Ordinary shares
	31 December 2015	31 December 2014
Authorised (ordinary) shares (number)	42,217,941,468	42,217,941,468
Par value of one share (in RUB)	0.10	0.10
Weighted average number of shares	42,217,941,468	42,217,941,468
(Loss) / profit for the year attributable to shareholders	852,807	(3,318,288)
(Loss) / earning per share (in RUB): basic and diluted	0.020	(0.079)

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22 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate risk, refer to Note 28.

Long-term loans and borrowings

Name of lender		Effective interest rate 31 December 2015	Effective interest rate 31 December 2014	Maturity	Par value		Carrying value	
					31 December 2015	31 December 2014	31 December 2015	31 December 2014
JSC "Alfa-Bank"	Unsecured	13,25%	8,25%	2017	-	2,002,712	-	2,002,712
PJSC "Bank VTB"	Unsecured	8,75-13,98%	8,1175-23%	2017-2018	10,670,000	11,720,000	10,670,000	11,720,000
PJSC "Rosbank"	Unsecured	12,90%	7,85%	2016-2018	1,500,000	3,800,000	1,500,000	3,800,000
PJSC "Sberbank"	Unsecured	10,524-14,06%	7,524-8,4%	2016-2025	12,797,055	13,152,738	12,797,055	13,152,738
PJSC "Transcapitalbank"	Unsecured	13,50%	13,50%	2015	-	82,717	-	82,717
Unsecured bond issues	Unsecured	11,58-12,42%	9,044%	2015-2018	15,475,454	4,075,520	15,144,630	4,071,729
OJSC "Severny Morskoy Put"	Unsecured	13,00-18,00%	11,4%	2017	-	2,450,000	-	2,450,000
PJSC "Sovcombank"	Unsecured	11,90%	-	2018-2022	2,000,000	-	2,000,000	-
					42,442,509	37,283,687	42,111,685	37,279,896
Less: current portion								
JSC "Alfa-Bank"	Unsecured	13,25%	8,25%	2017	-	2,712	-	2,712
PJSC "Rosbank"	Unsecured	12,90%	7,85%	2016-2018	-	3,800,000	-	3,800,000
OJSC "Sberbank"	Unsecured	10,524-14,06%	7,524-8,4%	2016-2025	1,512,055	1,652,738	1,512,055	1,652,738
CJSC "Transcapitalbank"	Unsecured	13,50%	13,50%	2015	-	82,717	-	82,717
Unsecured bond issues	Unsecured	11,58-12,42%	9,044%	2015-2018	475,454	4,075,520	164,450	4,071,729
					1,987,509	9,613,687	1,676,505	9,609,896
Total long-term borrowings					40,455,000	27,670,000	40,435,180	27,670,000

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Current loans and borrowings and current portion of long-term loans and borrowings

Name of lender	Effective interest rate 31 December 2015	Effective interest rate 31 December 2014	Par value		Carrying value	
			31 December 2015	31 December 2014	31 December 2015	31 December 2014
JSC "Alfa-Bank"	13,25%	8,25%	-	2,712	-	2,712
PJSC "Rosbank"	12,90%	7,85%	-	3,800,000	-	3,800,000
PJSC "Sberbank"	10,524-14,096%	7,524-8,4%	1,512,055	1,652,738	1,512,055	1,652,738
OJSC "SGB"	10,00%	10,00%	-	40	-	40
PJSC "Transcapitalbank"	13,50%	13,50%	-	82,717	-	82,717
Unsecured bond issues	11,58-12,42%	9,044%	475,454	4,075,520	164,450	4,071,729
			1,987,509	9,613,727	1,676,505	9,609,936

All the Group's borrowings are denominated in RUB and bear a fixed interest rate. The effective interest rate is the market interest rate applicable to the loan on the date of its receipt.

The carrying value of loans and borrowings approximates their fair value.

As at 31 December 2015 and 31 December 2014 no bank loans are secured over bank guarantees received.

During 2015, the Group made three issues of non-convertible documentary interest - bearing bonds with a total nominal value of RUB 15,000,000 thousand with a nominal interest rate of 11.58-12.42% per annum. The maturity of the bonds is 3-7 years. Two issues of the interest - bearing bonds have been purchased by PJSC "Russian Grids" (Note 32d).

23 FINANCE LEASE LIABILITIES

The finance lease liabilities are secured by the leased assets.

In 2015 the Group leases transportation vehicles (in 2014 - transportation vehicles and equipment for electricity transformation) under finance lease agreements. Finance lease liabilities are payable as follows:

	At 31 December 2015		
	Future minimum lease payments	Present value of minimum lease payments	Interest
Less than one year	1,629	1,503	126
Between one and five years	-	-	-
	1,629	1,503	126

	At 31 December 2014		
	Future minimum lease payments	Present value of minimum lease payments	Interest
Less than one year	87,761	82,485	5,276
Between one and five years	1,629	1,503	126
	89,390	83,988	5,402

24 EMPLOYEE BENEFITS

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

(a) Net liability in Consolidated Statement of Financial Position

	31 December 2015	31 December 2014
Recognised post-employment benefit	2,344,882	2,051,491
Recognised other long term liability	-	-
Total recognised liability	2,344,882	2,051,491

(b) Movements in the defined benefit liability

	Post-employment benefit		Other long-term liability		Total liability	
	2015	2014	2015	2014	2015	2014
Balance at 1 January	2,051,491	2,524,679	-	2,672	2,051,491	2,527,351
Included in profit or loss						
Current service cost	73,905	107,212	-	-	73,905	107,212
Past service cost	6,680	25,863	-	(1,861)	6,680	24,002
Interest cost	223,879	188,113	-	140	223,879	188,253
Remeasurements of other long term benefits	-	-	-	(34)	-	(34)
	304,464	321,188	-	(1,755)	304,464	319,433

Included in OCI

Remeasurements loss (gain):

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	Post-employment benefit		Other long-term liability		Total liability	
	2015	2014	2015	2014	2015	2014
- Actuarial loss (gain) arising from:						
- demographic assumptions	(46,392)	(186,012)	-	-	(46,392)	(186,012)
- financial assumptions	230,324	(263,716)	-	-	230,324	(263,716)
- experience adjustment	(2,493)	(135,529)	-	-	(2,493)	(135,529)
	181,439	(585,257)	-	-	181,439	(585,257)
Other						
Benefits paid	(192,512)	(209,119)	-	(917)	(192,512)	(210,036)
Balance at 31 December	2,344,882	2,051,491	-	-	2,344,882	2,051,491

(c) Actuarial assumptions

Principal actuarial assumptions used are as follows:

	31 December 2015	31 December 2014
Discount rate, annual	9.50%	12.00%
Future salary increase, per year	6.00%	7.00%
Inflation rate, per year	6.00%	7.00%
Average staff turnover	6.00%	7.00%

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows.

	2015	2014
Longevity at age 60 for current pensioners		
Males	19	19
Females	25	25
Longevity at age 60 for current members aged 45		
Males	22	22
Females	27	27

At 31 December 2015, the weighted-average duration of the defined benefit obligation was 7.1 years (2014: 6.6 years).

The amount of expected payments under defined benefit plans for 2016 is RUB 226,586 thousand.

(d) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

31 December 2015	Impact of movement in actuarial assumptions on Defined benefit plan obligation	
	Increase	Decrease
Actuarial assumptions		
Discount rate (0.5% movement)	-3.65%	3.65%
Future salary growth (0.5% movement)	0.90%	-0.90%
Future pension growth (0.5% movement)	2.88%	-2.88%
Staff turnover (10% movement)	-0.93%	0.93%
Future mortality (10% movement)	-1.23%	1.23%

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

25 EMPLOYEE PAYABLES

	31 December 2015	31 December 2014
Salaries and wages payable	8,922	58,956
Unused vacation provision	344,827	384,271
Annual bonus provision	286,061	197,997
Provision for termination benefits	190	621
	640,000	641,845

Provision for annual bonuses includes bonuses and other similar payments accrued (including compulsory social security contributions) based on employees' performance.

26 TRADE AND OTHER PAYABLES, PROVISIONS

Current trade and other payables include:

	31 December 2015	31 December 2014
Trade accounts payable	4,907,108	5,348,193
Other payables	1,355,955	693,763
Advances from customers	2,048,474	1,997,485
	8,311,537	8,039,441

As a part of current liabilities, there is litigation provision, which includes:

	31 December 2015	31 December 2014
Balance at 1 January	1,162,928	1,187,124
Provision increase during the year	1,074,233	840,472
Decrease due to the use of provision	(348,168)	(402,468)
Decrease due to reversal	(789,121)	(462,200)
Balance at 31 December	1,099,872	1,162,928

Non-current trade and other payables include:

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	<u>31 December 2015</u>	<u>31 December 2014</u>
Advances from customers	365,804	571,740
Other trade payables	14,884	8,403
	<u>380,688</u>	<u>580,143</u>

Advances from customers are mainly represented by prepayments received from customers under contracts of technical connection to the power grid.

27 OTHER TAXES PAYABLE

	<u>31 December 2015</u>	<u>31 December 2014</u>
Value added tax	910,038	586,325
Compulsory social security contributions	421,964	343,005
Property tax	145,911	41,690
Other taxes	16,486	22,174
	<u>1,494,399</u>	<u>993,194</u>

28 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Overview

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

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

The Group does not have any significant exposure to currency risk on sales, purchases and borrowings, because no significant sales, purchases, or borrowings are denominated in a currency other than the functional currency of the Company, which is the Russian Rouble.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Group's principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade and other receivables

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

To manage credit risk the Group attempts, to the fullest extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is set in a contract and depends on the amount of capacity to be connected.

The customer base for electricity transmission services is limited to several distribution companies and a small number of large manufacturing/extraction enterprises. Payments are tracked regularly and electricity transmission customers

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are advised of any failures to submit timely payments. For quick collection and complete control of accounts receivable collection activities are performed to reduce the Company's finance losses, caused by non-fulfilment or insufficient fulfilment by some contractors of their contractual obligations.

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

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

(ii) Exposure to credit risk

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

	<u>31 December 2015</u>	<u>31 December 2014</u>
Trade and other receivables	16,243,521	15,253,905
Cash and cash equivalents	123,220	395,836
	<u>16,366,741</u>	<u>15,649,741</u>

The Group's two most significant customers, regional distribution entities, account for RUB 5,239,024 thousand of the trade receivables carrying amount at 31 December 2015 (at 31 December 2014: RUB 3,233,035 thousand).

The maximum exposure to credit risk for trade receivables (excluding other receivables) at the reporting date by type of customer was:

	<u>Carrying amount at 31 December 2015</u>	<u>Carrying amount at 31 December 2014</u>
Electricity transmission customers	13,210,035	10,411,303
Consumers of electricity and capacity	1,837,013	3,143,350
Connection services customers	176,016	232,297
Other customers	181,630	284,898
	<u>15,404,694</u>	<u>14,071,848</u>

Impairment losses

The tables below analyse the Group's trade and other receivables into relevant groups based on the past due periods:

	<u>At 31 December 2015</u>		<u>At 31 December 2014</u>	
	<u>Carrying amount</u>	<u>Allowance</u>	<u>Carrying amount</u>	<u>Allowance</u>
Not past due	7,602,048	(39,217)	7,726,324	(12,687)
Past due 0-3 months	3,472,186	(155,276)	2,778,359	(174,349)
Past due 3-6 months	713,945	(100,480)	1,342,147	(25,102)
Past due 6-12 months	2,216,021	(424,166)	4,522,617	(1,179,890)
Past due more than 12 months	14,076,493	(11,118,033)	9,389,611	(9,113,125)
	<u>28,080,693</u>	<u>(11,837,172)</u>	<u>25,759,058</u>	<u>(10,505,153)</u>

The movements in the allowance for impairment in respect of trade and other receivables during the period were as follows:

	<u>Year ended 31 December 2015</u>	<u>Year ended 31 December 2014</u>
Balance at 1 January	10,505,153	10,758,120
Increase during the period	2,214,226	2,001,797
Amounts written-off against trade and other receivables	(74,803)	(71,635)

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	Year ended 31 December 2015	Year ended 31 December 2014
Decrease due to reversal of amounts written off	(807,404)	(2,183,129)
Balance at 31 December	11,837,172	10,505,153

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors the risk of cash shortfalls by means of current liquidity planning. 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. This approach is used to analyse payment dates associated with financial assets, and also to forecast cash flows from operating activities.

To manage the liquidity risk, the Group has negotiated long-term and short-term credit lines with a pool of banks.

As at 31 December 2014 the Group's unused portion of long-term and short-term credit line facilities amounted to RUB 10,150,000 thousand (as at 31 December 2013: RUB 8,800,000 thousand).

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

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 2 years					Between 2 and 3 years					Between 3 and 4 years					Between 4 and 5 years					More than 5 years					
				Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years						
Liabilities as at 31 December 2015																													
Short-term and long-term bank loans including current portion	26,967,055	34,993,800	4,528,331	7,874,198	19,408,394	3,182,877	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unsecured bond issues	15,144,630	23,532,050	1,785,100	1,785,100	6,475,450	1,165,800	6,165,800	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,154,800
Finance lease liabilities	1,503	1,629	1,629	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade and other payables	6,277,947	6,277,947	6,263,063	859	1,035	1,035	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,920
	48,391,135	64,805,426	12,578,123	9,660,157	25,884,879	4,349,712	6,166,835	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,165,720	
Liabilities as at 31 December 2014																													
Short-term and long-term bank loans including current portion	33,208,207	44,562,072	8,713,122	4,330,904	14,543,595	12,213,903	252,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,508,548
Unsecured bond issues	4,071,729	4,357,040	4,357,040	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance lease liabilities	83,988	89,390	87,761	1,629	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade and other payables	6,037,239	6,037,239	6,028,836	131	131	131	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,879
	43,401,163	55,045,741	19,186,759	4,332,664	14,543,726	12,214,034	252,131	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,516,427	

(d) Market risk

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

(i) Interest rate risk

Substantially all the operations of the Group are denominated in Russian Roubles, hence the Group is not exposed to significant currency risk.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of loans and borrowings. The interest rates on most long- and short-term loans and borrowings are fixed. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt).

The Group Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

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

	Carrying amount	Carrying amount
Fixed rate instruments	31 December 2015	31 December 2014
Loans and borrowings, finance lease liability	42,113,188	37,363,924

Fair value sensitivity analysis for fixed rate instruments

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

(e) Accounting classifications and fair values

The fair values of the Group's financial assets and liabilities approximate their carrying amounts as at 31 December 2015.

The Group measures at fair value available-for-sale financial assets represented by equity securities (Note 15).

(f) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity.

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

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

The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their charter capital at all times.

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As at the end of the reporting year the debt-to-equity ratio for the Group was as follows:

	Carrying value	
	31 December 2015	31 December 2014
Aggregate liabilities	61,562,627	54,862,332
Less: cash and cash equivalents	(123,220)	(395,836)
Net debt	61,439,407	54,466,496
Shareholders' equity	38,886,343	38,931,662
Gearing ratio	158%	140%

29 OPERATING LEASES

The Group leases a number of land plots owned by local governments under operating leases. In addition, the Group leases non-residential premises and vehicles.

Land leases were entered in prior periods and represented land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 1 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

The land title does not pass and the landlord retains control over land usage. The Group determined that substantially all the risks and rewards of the land plots are with the landlord, therefore the leases are considered as operating leases.

Operating lease rentals under non-cancellable leases are payable as follows:

	31 December 2015	31 December 2014
Less than one year	535,471	529,490
Between one year and five years	663,997	925,366
More than five years	4,320,503	4,266,724
	5,519,971	5,721,580

The amount of lease expense under operating leases recognised in profit or loss in 2015 was RUB 549,588 thousand (in 2014: RUB 524,064 thousand).

30 COMMITMENTS

The Group has outstanding commitments under the contracts for the purchase and construction of the items of property, plant and equipment for RUB 6,462,396 thousand as at 31 December 2015 (as at 31 December 2014: RUB 4,590,346 thousand).

31 CONTINGENCIES

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has reliable insurance coverage for its property: industrial buildings, structures and premises, air and cable transmission lines, energy (power) machines and others. In addition, insurance covers risks that could lead to losses in the event of damage to third parties (health, property) arising from operation of dangerous production units. The Group has no insurance coverage against losses caused by business interruption.

(b) Litigation

The Group is a party to certain legal proceedings arising in the ordinary course of business. Management does not believe that these matters will have a material adverse effect on the Group's financial position and operating results. Changes in litigation provisions are presented in Note 26.

(c) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

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

(d) Environmental matters

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

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

(e) Other contingencies

The Group believes that the electricity services provided are in compliance with the Russian legislation regulating electric power transmission. Other contingencies to disclose as at 31 December 2015 and 31 December 2014 are absent.

(f) Guarantees

As at 31 December 2015, the Group has no issued financial guarantees for loans and borrowings.

32 RELATED PARTY TRANSACTIONS

(a) Control relationships

The Company's parent as at 31 December 2015 and 31 December 2014 was PJSC "Russian Grids". The party with the ultimate control over the Company is the Government of the Russian Federation, which held the majority of the voting rights of PJSC "Russian Grids". The economic, social and other policies of the Government of the Russian Federation could have a significant impact on the Group's activities.

(b) Transactions with parent company and entities under control of parent company

	Transaction value for the year ended 31 December		Balance as at 31 December	
	2015	2014	2015	2014
Sale of goods and services:	313,050	36,065	55,745	42,368
Parent company	-	22,108	-	25,169
Fellow subsidiaries	313,050	13,957	55,745	17,199
Purchase of goods and services:	17,368,367	15,795,380	2,144,793	2,511,357
Parent company	384,647	371,975	22,617	20,201
Fellow subsidiaries	16,983,720	15,423,405	2,122,176	2,491,156
Advances given:	-	-	33,881	108,375
Fellow subsidiaries	-	-	33,881	108,375
Advances received:	-	-	167,040	167,011
Fellow subsidiaries	-	-	167,040	167,011

(c) Management compensation

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

Total remuneration to key management, Board of Directors and Management Board members for the reporting year, included into personnel costs (Note 9) was:

	Year ended 31 December 2015	Year ended 31 December 2014
Salary and bonuses (including contributions to state insurance funds)	258,442	306,280
Pensions and post-employment benefits	397	265

The amount of commitments to key management personnel included in employee benefit obligations (Note 25) was as follows:

	31 December 2015	31 December 2014
Present value of defined benefit and defined contribution plans, as well as other payments for post-employment benefits	3,994	2,465

(d) Transactions with government-related entities

The Group applies the exemption in IAS 24 Related party disclosures that allows to present reduced related party disclosures regarding transactions with government-related entities.

In the course of business, the Group makes a significant number of transactions with companies that are government-related. These operations are carried out under the regulated tariffs, or in accordance with market prices.

Revenues from government-related entities accounts for 20% of the Group's total revenue for the year ended 31 December 2015, (for the year ended 31 December 2014: 24%) including 21% of the proceeds from the transmission of electricity (for the year ended 31 December 2014: 23%).

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Costs of electricity transmission for government-related entities account for 44% of the total cost of the electricity transmission for the year ended 31 December 2015 (for the year ended 31 December 2014: 15%).

During 2015, the Group made three issues of non-convertible documentary interest - bearing bonds with a total nominal value of RUB 15,000,000 thousand with a nominal interest rate of 11.58-12.42% per annum. The maturity of the bonds is 3-7 years. Two issues of the interest - bearing bonds with a total nominal value of RUB 10,000,000 thousand with a nominal interest rate of 11.58-12.42% per annum have been purchased by PJSC "Russian Grids".

(e) Loans and borrowings received from government-related entities

	Addition of loans and borrowings	The balance of transactions	Addition of loans and borrowings	The balance of transactions
	2015	31 December 2015	2014	31 December 2014
Loans and borrowings received	5,792,342	23,467,055	6,650,000	24,872,738
	5,792,342	23,467,055	6,650,000	24,872,738

Loans and borrowings are drawn at the market interest rate (Note 28).

(f) Pricing policy

Transactions with related parties for the transmission of electricity are carried out at the tariffs set by the state.

33 EVENTS AFTER THE REPORTING PERIOD

Events after the balance sheet date, which should be reflected in the consolidated financial statements for the reporting period, have not been identified.