E.ON RUSSIA GROUP

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

31 DECEMBER 2015

Contents

Auditor's Report

To the Shareholders and Board of Directors of OAO «E.ON Russia»

We have audited the accompanying consolidated financial statements of OAO «E.ON Russia» and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of profit and loss, comprehensive income, changes in equity and cash flows for 2015, and notes comprising a summary of significant accounting policies and other explanatory information.

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

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

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

Translation note:

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

Auditor's Report (Continued)

Opinion

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

Audited entity: OAO «E.ON Russia»

State registration certificate № 1058602056985, issued by Inspection of FNS on 4 March 2005

Address: Russian Federation, 628406, Tumen` region, Hunti-Mansijskij A.O. – Ugra, Surgut, Energostroitiley street, 23, building 34.

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

Translation note:

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E.ON Russia Group
Consolidated Statement of Financial Position
(RUB thousand)

	Note	At 31 December 2015	At 31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	7	105,902,885	102,996,512
Goodwill	6	-	499,082
Other intangible assets	8	324,066	1,164,972
Investments in joint ventures	9	851,000	-
Long-term financial assets	25	30,185	55,743
Non-current assets	25	847,214	780,272
Total non-current assets		**107,955,350**	**105,496,581**
Current assets			
Cash and cash equivalents	25	9,363,083	13,100,785
Accounts receivable and prepayments	11, 25	5,779,705	5,983,083
Inventories	10	2,166,577	2,149,539
Current income tax prepayments		1,357,528	50,362
Short-term financial assets	12	142,914	919,055
Total current assets		**18,809,807**	**22,202,824**
TOTAL ASSETS		**126,765,157**	**127,699,405**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	25,219,482	25,219,482
Share premium		40,052,405	40,052,405
Other reserves	13	2,195,878	2,018,724
Retained earnings		42,439,252	45,177,717
Total equity attributable to shareholders of OAO E.ON Russia		**109,907,017**	**113,468,328**
Non-controlling interest		200,618	525,854
Total equity		**110,107,635**	**113,994,182**
Non-current liabilities			
Deferred income tax liabilities	17	6,951,355	5,698,608
Pension liabilities	14	801,322	660,616
Other non-current liabilities	6	-	271,872
Total non-current liabilities		**7,752,677**	**6,631,096**
Current liabilities			
Accounts payable and accruals	15	6,675,240	6,127,313
Income tax payable		-	5,536
Taxes payable other than income tax	16	2,229,605	941,278
Total current liabilities		**8,904,845**	**7,074,127**
Total liabilities		**16,657,522**	**13,705,223**
TOTAL EQUITY AND LIABILITIES		**126,765,157**	**127,699,405**

Approved and singed 15 March 2016

General Director M.G. Shirokov

Financial Director U. Backmeyer

(RUB thousand)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Revenues	18	76,705,554	77,693,134
Operating expenses	20	(63,047,525)	(59,292,137)
Other operating income	19	3,056,905	619,689
Operating profit		**16,714,934**	**19,020,686**
Finance income	21	1,256,577	2,034,088
Finance expense	21	(528,979)	(117,672)
Share of results of joint venture	9	(21,260)	-
Profit before income tax		**17,421,272**	**20,937,102**
Income tax charge	17	(3,630,787)	(4,052,172)
Profit for the period		**13,790,485**	**16,884,930**
Profit for the period attributable to:			
Shareholders of OAO E.ON Russia		**13,676,222**	**16,813,434**
Non-controlling interest		**114,263**	**71,496**
Other comprehensive income after income tax:			
Items that will not be reclassified to profit or loss			
Remeasurements of pension liabilities		(54,111)	368,860
Total items that will not be reclassified to profit or loss		**(54,111)**	**368,860**
Items that may be reclassified subsequently to profit or loss			
Loss / (gain) from change in fair value of financial assets available-for sale		6,417	(1,904)
Gain from cash flow hedge		804,422	1,087,080
Reclassification of cash flow hedge gain to profit and loss		(579,574)	(156,719)
Total items that may be reclassified subsequently to profit or loss		**231,265**	**928,457**
Total other comprehensive income for the period		**177,154**	**1,297,317**
Total comprehensive income for the period		**13,967,639**	**18,182,247**
Total Comprehensive income attributable to:			
Shareholders of OAO E.ON Russia		**13,853,376**	**18,110 ,751**
Non-controlling interest		**114,263**	**71,496**
Earnings per ordinary share for profit attributable to the shareholders of OAO E.ON Russia – basic and diluted (in Russian roubles)	22	**0.22**	**0.27**

E.ON Russia Group
Consolidated Statement of Changes in Equity
(RUB thousand)

	Attributable to shareholders of OAO E.ON Russia						
	Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
At 1 January 2014	**25,219,482**	**40,052,405**	**721,407**	**53,290,789**	**119,284,083**	**62,908**	**119,346,991**
Profit for the period	-	-	-	16,813,434	**16,813,434**	71,496	**16,884,930**
Other comprehensive income:							
Revaluation of financial assets available for sale	-	-	(1,904)	-	**(1,904)**	-	**(1,904)**
Revaluation of pension liabilities	-	-	368,860	-	**368,860**	-	**368,860**
Cash flow hedges	-	-	1,087,080	-	**1,087,080**	-	**1,087,080**
Reclassification of hedge gain to profit or loss	-	-	(156,719)	**-**	**(156,719)**	**-**	**(156,719)**
Total comprehensive income for the period	**-**	**-**	**1,297,317**	**16 813 434**	**18,110,751**	**71,496**	**18,182,247**
Acquisition of subsidiary	-	-	-	-	**-**	432,903	**432,903**
Dividends	-	-	-	(23,926,506)	**(23,926,506)**	(41,453)	**(23,967,959)**
At 31 December 2014	**25,219,482**	**40,052,405**	**2,018,724**	**46,177,717**	**113,468,328**	**525,854**	**113,994,182**
At 1 January 2015	**25,219,482**	**40,052,405**	**2,018,724**	**46,177,717**	**113,468,328**	**525,854**	**113,994,182**
Profit for the period	-	-	-	13,676,222	**13,676,222**	114,263	**13,790,485**
Other comprehensive income:							
Revaluation of financial assets available for sale	-	-	6,417	-	**6,417**	-	**6,417**
Revaluation of pension liabilities	-	-	(54,111)	-	**(54,111)**	-	**(54,111)**
Cash flow hedges	-	-	804,422	-	**804,422**	-	**804,422**
Reclassification of hedge gain to profit or loss	-	-	(579,574)	**-**	**(579,574)**	**-**	**(579,574)**
Total comprehensive income for the period	**-**	**-**	**177,154**	**13,676,222**	**13,853,376**	**114,263**	**13,967,639**
Disposal of subsidiary	-	-	-	90,307	**90,307**	(407,338)	**(317,031)**
Dividends	-	-	-	(17,504,994)	**(17,504,994)**	(32,161)	**(17,537,155)**
At 31 December 2015	**25,219,482**	**40,052,405**	**2,195,878**	**42,439,252**	**109,907,017**	**200,618**	**110,107,635**

(RUB thousand)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before income tax		**17,421,272**	**20,937,102**
Adjustments for non-cash items**:**			
Depreciation and amortisation of PPE and intangible assets	7,8,20	7,638,186	7,097,420
Reclassification of hedge gain to profit or loss	25	(724,468)	(195,899)
Loss on impairment of PPE and intangible assets	7,8,20	703,212	158,638
Provision for impairment of accounts receivable	25,20	417,004	554,837
Foreign exchange loss / (gain), net		210,985	(372,727)
Interest income	21	(1,256,577)	(954,760)
Interest expense and effect of discounting	21	317,994	117,672
Gain on disposal of property, plant and equipment	7	(22,747)	(182,212)
Change in pension liabilities	14	17,377	56,836
Change in provisions		238,518	(636,823)
Share of results of joint ventures	9	21,260	-
CIP disposals	7	652,056	-
Other non-cash items		179,106	(74,673)
Operating cash flows before working capital changes and income tax paid		**25,813,178**	**26,505,411**
Working capital changes:			
Increase in accounts receivable and prepayments	11	(1,079,594)	(560,041)
Decrease/(Increase) in VAT recoverable	11	179,296	(202,765)
Increase in inventories	10	(393,404)	(470,249)
Increase in accounts payable and accruals	15	163,551	1,168,199
Contributions paid to pension fund	14	(34,830)	(33,163)
Increase/(decrease) in taxes payable other than income tax	16	1,288,327	(117,710)
Income tax paid		(3,508,188)	(2,865,711)
Net cash from operating activities		**22,428,336**	**23,423,971**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment and other non-current assets	7	(12,167,840)	(17,710,226)
Proceeds from sale of property, plant and equipment and other non-current assets	7	26,872	247,621
Acquisition of subsidiary	6	-	(1,051,829)
Investment in joint venture	9	(851,000)	-
Proceeds from disposal of subsidiaries, net of disposed cash	6	(179,413)	-
Placement, repayment of deposits and securities	12	1,515,763	8,508,434
Loans issued	5	(2,330,603)	(77,653)
Loans repaid	5,6,9	3,387,101	2,568,251
Interest received	21	1,030,510	930,903
Dividends received		-	65,311
Net cash generated used in investing activities		**(9,568,610)**	**(6,519,188)**
CASH FLOW FROM FINANCING ACTIVITIES:			
Dividends paid to shareholders of OAO E.ON Russia	13	(17,398,888)	(23,824,747)
Dividends paid to non-controlling interest		(32,161)	(41,453)
Loan received	5	2,400,000	-
Loan repaid	5	(2,400,000)	-
Interests repaid	5	(126,575)	-
Net cash used in financing activities		**(17,557,624)**	**(23,866,200)**
Effect of exchange rate changes on cash and cash equivalents		960,196	2,035,205
Decrease in cash and cash equivalents		**(3,737,702)**	**(4,926,212)**
Cash and cash equivalents at the beginning of the year		13,100,785	18,026,997
Cash and cash equivalents at the end of the year	25	9,363,083	13,100,785

(RUB thousand)

Note 1. The Group and its operations

Open Joint-Stock Company E.ON Russia (OAO E.ON Russia or the Company) was established on 4 March 2005.

The Company's principal activities are generation and sale of electricity and heat.

Shares of OAO E.ON Russia are listed in the First Level List of ZAO FB MMVB (MOEX).

The Company operates the following five power plants (GRES) as branches: Surgutskaya GRES-2, Shaturskaya GRES, Berezovskaya GRES, Smolenskaya GRES and Yayvinskaya GRES. The Company also runs a representative office in Moscow and a branch E.ON Engineering (opened in 2014) that coordinates all activities in connection with the construction of the 3rd power unit PSU-800 on the basis of branch "Berezovskaya GRES". The branch Berezovskaya GRES Heat Supply Network that provided heat services to the local population was merged into the branch Berezovskaya GRES in 2014. All references to the "Group" refer to the Company, its branches and subsidiaries.

The structure of the Group, including all consolidated entities and joint ventures, is presented in the table below:

	Principal activity	Ownership, %	
		At 31 December 2015	At 31 December 2014
Subsidiaries of OAO E.ON Russia			
OOO E.ON Engineering	Engineering activities (project and technological engineering)	100	-
OOO Uniper	Generation and sale of electricity and heat	100	-
OAO Shaturskaya Management Company	Municipal services	51	51
OOO E.ON Connecting Energies	Provision of distributed energy solutions to all types of customers	50	100
OOO Noginsky Teplovoy Center	Generation and sale of electricity and heat	34	67
OOO Teplosbyt	Securities trading	-	100

OAO E.ON Russia's share in OOO E.ON Connecting Energies has changed to 50% due to admission of a third party - E.ON Connecting Energies GmbH to shareholding in OOO E.ON Connecting Energies and increase of OOO E.ON Connecting Energies' share capital through contribution of the third party.

The Company is registered with the District Inspectorate of the Federal Tax Service of Surgut, Tyumen Region, Khanty-Mansiysk Autonomous District (Yugra). The Company's representation is located at bld. 10, Block B, Presnenskaya nab., Moscow, Russia, 123317.

The Group sells electricity on the wholesale electricity and capacity market. The wholesale electricity market has a number of sectors varying in contractual terms, conditions and delivery time frames: sector of regulated contracts, day-ahead market, sector of unregulated bilateral contracts and the balancing market. The electricity traded in both pricing zones of the wholesale market was sold at unregulated prices except for volumes designated for delivery to the population, groups of customers equivalent to population and customers located in the Northern Caucasus and in the Republic of Tyva.

Tariffs for electricity (capacity) and heat for the Group's entities are mainly governed by normative documents on the state regulation of prices (tariffs).

For regulating prices (tariffs) both a cost-plus method and tariff indexation are used. In the formation of the tariffs costs are determined in accordance with Russian Accounting Rules (RAR), which significantly differ from International Financial Reporting Standards (IFRS). In practice, tariff decisions are significantly affected by social and political considerations causing significant delays in tariff increases required to compensate increasing costs.

E.ON SE New Strategy

E.ON, which includes E.ON SE — the Company's ultimate parent and ultimate controlling party —

successfully completed the process of allocation of assets associated with the traditional production of electricity (hydro, natural gas, coal), with the production and sale of gas in the Russian Federation, as well as with the global trade of electricity and energy resources (gas, coal), into a separate company (Uniper).

By separating its businesses as planned on January 1, 2016 E.ON took an important step in implementing its new corporate strategy just over a year after it was announced. The next key date in the timeline is the general meeting this June at which shareholders will be asked to approve the split of E.ON shares and listing of new shares of Uniper. The spinoff would then take place in the second half of 2016 when E.ON plans to divest a majority stake in Uniper and lists the company's shares on the stock market. E.ON intends to part with its remaining stake over the medium term.

Operating environment

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2015 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

To varying degrees, the Group and its profit depend on regulatory changes in the electricity market, financial, administrative and environmental legislation of the Russian Federation.

These consolidated financial statements reflect management's assessment of the manner in which the business environment in the Russian Federation has an effect on the Group's operations and financial position. Actual results may differ from the estimates made by management.

Changes in Industry

In accordance with the Russian Regulation No 505 issued by the Russian Government as of 02 June 2014 introduces amendments into the acts for the regulated prices (tariffs) for electricity and capacity. The above Regulation provides for the following:

- The indexation of capacity prices resulted from the competitive capacity selection in 2014 –from 1 January by 6.5%, in 2015 – without indexation.
- The indexation of regulated prices (tariffs) for electricity (capacity) in 2014 and 2015 - without indexation.

In 2014, the wholesale gas prices were "frozen" (in accordance with the Order of the Federal Tariff Service number 177-e / 2 of 26 September 2013.

In 2015 gas prices were indexated by 7,5% from the 01 of July 2015 in accordance with the Order of the Federal Tariff Service number 218-e/3 of the 8 of June 2015.

Resultant of Decree No. 893 of the Government of the Russian Federation dated August 27th, 2015, significant changes have taken effect in the competitive capacity auction:

- The price is determined based on an elastic demand curve;
- The transition to holding auctions four years in advance has taken effect.

As a result of Order No. 925 of the Ministry of Economic Development dated December 18th, 2015, changes have taken effect regarding the Method of determining the value of the average yield of long-term government bonds, used in calculating the capacity price for capacity suppliers. These changes allow for taking into account the growth of government bond yields when determining the WACC value, which is used in determining the capacity price for DPM-contracted capacity.

Note 2. Principles of preparation and summary of significant accounting policies

Statement of compliance. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Each enterprise within the Group individually maintains its own accounting records and prepares statutory financial statements in accordance with Russian accounting and reporting rules. The accompanying consolidated financial statements are based on the statutory records and adjusted and reclassified for fair presentation to meet IFRS requirements. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Predecessor accounting. In these consolidated financial statements, formation of the Group was accounted for as a business combination of entities under common control. The predecessor accounting method was applied. Accordingly, the assets and liabilities of the combined entities (OAO Berezovskaya GRES-1, OAO Shaturskaya GRES-5, OAO Yayvinskaya GRES, OAO Smolenskaya GRES and OAO Surgutskaya GRES 2) were recorded at their historical cost as reflected in the IFRS consolidated financial statements of RAO UES. The formation of the Group was completed in June 2006.

Principles of consolidation. The financial statements comprise the financial statements of OAO E.ON Russia and the financial statements of those entities whose operations are controlled by OAO E.ON Russia. Control is presumed to exist when OAO E.ON Russia (i) has the power to enable it to manage the significant activity that has a significant impact on the income of an investment, (ii) is exposed to risks associated with variable income from interest in an investment, or is entitled to receive such income, and (iii) has the ability to use its powers in respect of an investment in order to influence the amount of income of the investor.

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

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

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

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

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

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of results of associates.
However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.
Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.
Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.
Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

Transactions eliminated on consolidation. Inter-Group balances and transactions, and any unrealised gains arising from inter-Group transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RUB"). The consolidated financial statements are presented in Russian Roubles ("RUB"), which is the Group's presentation currency.

Transactions and balances. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss as finance income or costs – net, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'Other operating expenses – net'. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Group companies. Loans between Group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between Group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognized in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognized in other comprehensive income.
The results and financial position of each Group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:
(i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;
(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
(iii) components of equity are translated at the historic rate; and
(iv) all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation or a subsidiary with a functional currency other than the functional or presentation currency of the Group is lost, the exchange differences recognised previously in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.
Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

At 31 December 2015, the principal rate of exchange used for translating foreign currency balances was

(RUB thousand)

USD 1 = RUB 72.8827 (2014: USD 1 = RUB 56.2584), and EUR 1=RUB 79.6972 (2014: EUR 1 = RUB 68.3427).

Property, plant and equipment. Property, plant and equipment (PP&E) are stated at cost less accumulated depreciation and provision for impairment, where required. Property, plant and equipment includes assets under construction for future use as property, plant and equipment. Deemed cost was initially determined by a third-party valuation as of 31 December 1997 and restated for the impact of inflation for the period until 31 December 2002.

Adjustments were made for additions, disposals and depreciation charges. The amounts determined by the third-party valuation represent an estimate of depreciated replacement cost. Under paragraph 16 of IAS 29 *Financial Reporting in Hyperinflationary Economies*, a third-party valuation was performed in order to determine a basis for cost because historical accounting records for PP&E were not readily available. Therefore, this third-party valuation was not a recurring feature, since it was intended to determine the initial cost basis of PP&E and the Group had not adopted a policy of PP&E revaluation for subsequent measurement. At each reporting date, management assesses whether there is any indication of impairment of PP&E; this assessment is performed at the level of the cash generating unit (per station). If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

Renewals, improvements and major capital maintenance costs are capitalised and the assets replaced are retired. Regular repair and maintenance costs are expensed as incurred. Gains and losses arising from the retirement of PP&E are included in profit and loss as incurred.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of the asset once it is available for use. The residual value of the Group's PP&E is estimated to be close to zero. For those PP&E items that were subject to the third-party valuation at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives at the valuation date. Remaining useful lives and residual value are reviewed annually.

The useful lives, in years, of assets by type of facility are as follows:

Type of facility	**Acquired before 31 December 1997**	**Acquired after 31 December 1997**
Electricity and heat generation	7-50	15-50
Electricity distribution	6-32	8-25
Heating network	4-20	12-20
Major capital maintenance	-	4-6
Other	2-8	3-10

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

Purchases of property, plant and equipment in the Statement of Cash Flows do not include VAT.

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

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Intangible assets other than goodwill. The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software, licences and expenses on connection to the grid. Intangible assets are stated at amortised cost less impairment. Amortisation is calculated using a straight-line method. The useful lives of computer software are 1-16 years, while for the grid connection fee the useful life is 10 years.

At each reporting date, management assesses whether there is any indication of impairment of intangible assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in profit or loss. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

Amortisation of intangible assets is included in operating expenses. Remaining useful lives are reviewed annually.

Impairment of non-financial assets. Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread which is most representative of the fair value of the instrument in that particular circumstances was used to measure fair value, which management considers is the average of actual trading prices on the reporting date. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities are substantially the same.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held-to-maturity assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. The Group’s held-to-maturity assets comprise of ‘held-to-maturity investments’.

The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Other financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's [key management personnel. Recognition and measurement of this category of financial assets is consistent with the accounting policy for trading investments.

All other financial assets are included in the *available-for-sale* category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group's available-for-sale assets comprise of 'available-for-sale investments'.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost. The Group does not have liabilities held for trading as of the reporting dates.

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and

(b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income.

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year.

Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Embedded derivatives. Foreign currency forwards embedded into sales-purchase contracts are separated from the host contracts and accounted for separately unless the contract is denominated in the functional currency of any substantial party to the contract or in a currency that is commonly used in the economic environment in which the transaction takes place, such as in US Dollars and Euros for contracts within the Russian Federation.

Bifurcated derivatives are carried at fair value with gains and losses arising from changes in the fair value of derivatives included in other operating income or costs in profit or loss in the period in which they arise. Assets purchased are recognised in the statement of financial position at the forward rate determined at the contract date.

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

Trade and other accounts receivable. Accounts receivable are recorded inclusive of value-added tax. Accounts receivable initially are recognised at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment of accounts receivable is created if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, which is the present value of expected cash flows discounted at the initial market interest rate for similar borrowers at the date the debt arose.

Promissory notes. Promissory notes are recognised at fair value and subsequently accounted for at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment is created if there is objective evidence, based on credit rating of the issuing bank, that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, which is the present value of expected cash flows discounted at the market interest rate for similar borrowers at the date the debt arose.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the

Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

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

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

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

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

Financial guarantees. Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. Operating leases include long-term leases of land with rental payments contingent on cadastral values regularly reviewed by the government.

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

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

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

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

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

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

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

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on the normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

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

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

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

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

Revenue recognition. Electricity sales are recognised when the generated electricity is supplied to the grid. In accordance with the regulation on the Russian wholesale electricity and capacity market, utilities companies are required to conclude transactions for the sale and purchase back of electric energy (under bilateral contracts, for electricity for their own needs). Accordingly, these linked transactions are netted when revenue is recognised. Capacity sales are recognised when the capacity obligations have been fulfilled; heat energy sales are recorded when the heat is delivered to the customer. Other revenue is recognised when goods are shipped/delivered, or services are provided. Revenues are measured at the fair value of the consideration received or receivable. Revenue is presented exclusive of value-added tax.

Interest. Interest income and expense are recognised in profit or loss for all debt instruments on an accrual basis using the effective interest method. Interest income includes nominal interest and amortised discount or premium. When loans become doubtful, they are written down to their recoverable amounts, and interest income thereafter is recognised based on the interest that was used to discount future cash flows for the purpose of measuring the recoverable amount.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Pension and post-employment benefits. The Group makes all mandatory payments to the Russian state pension fund on behalf of its employees. Mandatory contributions to the state pension fund are expensed when incurred.

The Group provides a number of post-employment and other long-term benefits that have the nature of a defined benefit plan or a defined contribution plan. Defined benefit plans provide old-age and disability pensions, death in service and death in pension benefits, lump sum payment upon retirement, jubilee benefits to current and former employees retired from the Group as well as financial support after old-age retirement.

Defined benefit plans, except for old-age and disability pensions, are unfunded and paid on a pay-as-you-go basis, i.e. cost is met directly by the Group when due. With regard to old-age and disability pensions the Group has an agreement with a non-state pension fund.
The defined benefit plan defines the pension allowance that an employee will receive upon retiring. The allowance generally depends on several factors such as age, length of employment and salary. Pension obligation is settled by the Group via a non-state pension fund when the employee retires.

Defined benefit obligations are calculated using the projected unit credit method. The present value of defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and which have terms to maturity approximating the terms of the related pension liabilities.
The liability recognised in the statement of financial position is the present value of the obligation less plan assets. Actuarial gains and losses arising from experience adjustments and changes in actuarial estimates of post-employment activities are reflected in full in other comprehensive income. Past-service costs are recognised immediately in profit or loss.

Hedge accounting. The Group applies hedge accounting to cash flow hedge of the currency risks related to cash outflows in foreign currencies under investment programme and service contracts entered into for new Combined Cycle Plants (CCPs). Funds received as a result of operating activity were placed on deposits in the same currencies (hedging instrument). As the amount of the hedging instrument matches the amount of hedged items the effectiveness of the hedge is ensured.

The Group has applied the accounting policy to reclassify foreign exchange gains and losses that were recognised in other comprehensive income to profit or loss as a reclassification adjustment in the same periods during which the asset acquired affects profit or loss (that is in the periods when depreciation charge or service charge is recognised).In the statement of cash flows, cash flows of the hedging instrument are classified similarly to cash flows related to the hedged item.

Provisions. Provisions are recognised where the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Earnings per share.. Earnings per share are determined by dividing the profit or loss attributable to owners of the parent company of the Group (OAO E.ON Russia) by the weighted average number of participating shares outstanding during the reporting year.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group’s chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Note 3. Critical accounting estimates and assumptions

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management’s past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group’s management also makes certain judgements, apart from those involving estimates, in applying accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that could cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Provision for impairment of accounts receivable**.* Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectability of specific customer accounts has deteriorated compared to prior estimates. If there is deterioration/improvement in a major customer’s creditworthiness or actual defaults are higher/lower than the estimates, the actual results could differ from those estimates reported in these consolidated financial statements (see Note 11).

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

Useful lives of property, plant and equipment. The estimation of the useful lives of an item of property, plant and equipment is a matter of management judgement based on experience with similar assets. In determining the useful life of an asset, management considers existing industry practices, the expected usage, estimated technical obsolescence, physical wear and tear, and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.
The useful lives of property, plant and equipment are disclosed in Note 2.
The carrying value of fixed assets and the amounts included in the consolidated statement of comprehensive income, including depreciation, are disclosed in Note 7.

Impairment of fixed assets.
The Group assesses its non-current assets for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Such indicators include changes in the Group‘s business plans, changes in market prices and regulated tariffs for electricity and capacity, as well as gas and other fuel prices, leading to sustained unprofitable performance, an increase in the discount rate, low plant utilisation, evidence of physical damage and significant downward revisions of estimated generation volumes or increases in estimated future production costs. The assessment for impairment entails comparing the carrying value of the asset or cash-generating unit with its recoverable amount, that is, the higher of fair value less costs to sell and value in use. These calculations require the use of estimates and assumptions, including future oil prices, expected production volumes and margins on electricity and capacity sales. It is reasonably possible that these assumptions may change and may then require a material adjustment to the carrying value of the Group‘s assets.

Information about impairments recognised is presented in Note 7.

Note 4. Adoption of New or Revised Standards and Interpretations

Since 1 January 2015, the Group first applies the following new standards and amendments to existing standards and interpretations.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36
These amendments cancel requirement of disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) including goodwill or intangible assets with indefinite useful life for which an impairment loss has not been recognized during the period. These amendments have no impact to the Group.

The following amended standards became effective for the Group from 1 January 2015, but did not have any material impact on the Group.

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

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

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

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

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

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

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in

(RUB thousand)

January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group is currently assessing the impact of the amendments on its financial statements. The amendments are not yet adopted in Russia.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017.) The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its financial statements.
The amendments are not yet adopted in Russia.

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

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).

The following IFRS pronouncements have been issued by the IASB and become effective in later periods, but are not yet adopted in Russia.

- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

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

Note 5. Related Parties

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions as defined by IAS 24, Related Party Disclosure.

E.ON SE (former E.ON AG) is the Company's ultimate parent and ultimate controlling party. E.ON SE is widely held.
The Group's immediate parent is E.ON Russia Holding GmbH.
The Group had the following transactions and balances with the ultimate parent and other entities under common control:

	At 31 December 2015	At 31 December 2014
Accounts receivable	1,173	309
Accounts payable and accruals	310,249	249,788

(RUB thousand)

	Year ended 31 December 2015	Year ended 31 December 2014
Revenues (less VAT)	8,708	23,454
Services provided and works performed (less VAT)	555,209	287,774

Services provided and works performed include the E.ON New Build & Technology GmbH's consulting services regarding of assessment and expert analysis for the financial technical and administrative issues in the 3rd Unit at Berezovskaya GRES project for the period 2014-2015 in the amount of RUB 529,593 thousand.

On 30 November 2010, the Group provided a loan to E.ON SE in the amount of RUB 1,750,000 thousand due on 30 November 2017. During the period from 1 January 2014 to 04 August 2014 the interest rate was 7.00-9.95% per annum. A portion of accrued interest was capitalised over the reporting period. On 04 August 2014 the loan was fully repaid at the amount of RUB 2,559,280 thousand. (including the amount of the loan - RUB 2,501,988 thousand, interest on the loan - RUB 57,292 thousand).

On 5 February 2015, the Group provided a loan to E.ON SE in the amount of RUB 2,150,000 thousand due on 04 August 2015. The interest rate was 15.24% per annum, and for the reporting period interest was accrued at the amount of RUB 161,586 thousand. At the reporting date, the loan was fully repaid at the amount of RUB 2,150,000 thousand.

On July 2015, the Group received a loan from E.ON SE in the amount of RUB 2,400,000 thousand due on December 2015 at the interest rate 13.75% per annum. On 31 December 2015, the loan was fully repaid. Interest accrued for the period was RUB 126,575 thousand.

Directors' and Management Board's compensation

Members of the Company's Management Board receive compensation for their services in full-time management positions. Compensation is made up of a contractual salary, non-cash benefits and a performance bonus depending on results for the period according to the IFRS statutory financial statements (E.ON Group).

Members of the Board of Directors receive fees and compensation for their services and for attending board meetings as well as a bonus depending on the results for the year.

Total remuneration in the form of salary and bonuses accrued to members of the Board of Directors and Management Board for the year ended 31 December 2015 was RUB 320,550 thousand (31 December 2014: RUB 238,554 thousand).

	Year ended 31 December 2015	Year ended 31 December 2014
Salary and bonuses, other benefits	254,732	172,456
Contributions to non-state pension fund	31,807	15,032
Cash-settled share-based compensation	34,011	49,509
Termination benefits	-	1,557
Total	**320,550**	**238,554**

Members of the Company’s Management Board participate in the Group’s pension plans, including defined benefits plans, on the same terms as other employees (Note 14).

Note 6. Acquisitions and disposals

Acquisition of 67% share in OOO Noginsky Teplovoy Center

On 29 January 2014 OOO E.ON Connecting Energies (Group`s subsidiary) and AMG Industrial Investment Corporation AG signed a Sale and Purchase Agreement. According to this document, E.ON Connecting Energies acquired a 67% share in OOO Noginsky Teplovoy Center (owned by Subsidiary of DEGA Group).

(RUB thousand)

Currently, OOO Noginsky Teplovoy Center owns and manages 2 combined cycle gas turbines with an aggregate capacity of 30 MW in the industrial park Borilovo in Noginsk (Moscow region).

The number of park tenants (customers of the OOO Noginsky Teplovoy Center) includes such leading companies as chemical and pharmaceutical group Bayer, an international manufacturer of cosmetics Oriflame, retailer Metro and the American fast food company McDonald's.

By April 2014, the Group received the unconditional and unqualified approval of the transaction by the Federal Antimonopoly Service of Russia ("FAS Approval"). On 15 April 2014, the Group recognized the acquisition of the 67% stake in OOO Noginsky Teplovoy Center.

The purchase price for the 67% of Share in OOO Noginsky Teplovoy Center consists of the following components:

1) The Initial Share Purchase Price – a cash payment in the amount of EUR 22,040,630 (RUB 1,099,519 thousand) in favour of AMG Industrial Investment Corporation AG (payment was made on 15 April 2014);
2) The Additional Share Purchase Price - a cash payment in the amount of EUR 2 000 000 in favour of AMG Industrial Investment Corporation AG (payment will be made within the period until 31 December 2018);
3) The Bonus Payment - a cash payment from zero to RUB 272,100 thousand. OOO E.ON Connecting Energies shall additionally pay RUB 10,547 for each full kW contracted by OOO Noginsky Teplovoy Center over 25.45 MW contracted at the date of the sales contract, but not more than RUB 272,100 thousand in the aggregate for the period up to 31 December 2018.

The present values of the second and third components are determined at fair value in the amount of RUB 278,486 thousand. The fair value was determined by applying the discounted cash flow method. The estimated fair value of the second component is determined by discounting the cash outflows using a discount rate of 3.6% which is cost of debt. The estimated fair value of the third component is determined by discounting the maximum cash payment using WACC equal to 9.6%.

As a result of the transaction, the Group obtained control over the operating and financial activities of OOO Noginsky Teplovoy Center by controlling the majority of votes at the general meeting of shareholders.

The consideration transferred by the Group, was based on an assessment of the value of the business acquired entity as a whole, produced by an external appraiser, KPMG AG Wirtschaftsprüfungsgesellschaft. However, in accordance with IFRS 3 "Business Combinations" Group should reflect the acquisition at the fair value of assets acquired and the acquisition of liabilities and contingent liabilities of OOO Noginsky Teplovoy Center at the acquisition date. These two different approaches can lead to differences and, as set out in the table below, the recognition of goodwill.

Below is the information about the assets and liabilities acquired and goodwill arising in connection with the acquisition of OOO Noginsky Teplovoy Center:

OOO Noginsky Teplovoy Center	**Fair value at the acquisition date**
Intangible assets	931,471
Property, plant and equipment	857,751
Trade receivables	3,440
Other current assets	12,345
Cash and cash equivalents	47,690
Deferred income tax liabilities	(300,759)
Trade payables	(8,022)
Other current liabilities	(232,090)
Total identifiable net assets	**1,311,826**
Less: non-controlling interest (33%)	432,903
Goodwill	**499,082**
Total consideration	**1,378,005**
Less: cash and cash equivalents of subsidiary acquired	47,690
Less: non-cash consideration	278,486
Outflow of cash and cash equivalents on acquisition	**1,051,829**

(RUB thousand)

The non-controlling interest represents the interest in the net assets of the acquired entity belonging to the non-controlling owners.

The fair value of the assets acquired and liabilities was determined on the basis of discounted cash flow. The valuation of identifiable intangible assets is performed by an independent professional appraiser. During the evaluation, in addition to tangible assets (fixed assets for production and distribution of energy) was recognized as an intangible asset (client relationships), which is considered the main asset of the company.

Goodwill is primarily due to the expected synergies from the acquisition and the uniqueness of the services provided, as well as the lack of connectivity of the industrial park to other energy sources. For future periods, goodwill will not reduce the tax base.

On 29 January 2014 E.ON Connecting Energies and DEGA Group (AMG) have signed a Joint Activity Agreement for provision of energy solutions for industrial and business parks on the territory of the Russian Federation. The Agreement defines terms and conditions under which these companies will cooperate in production and delivery of heat and electricity and their responsibilities.

Under this Agreement, during the construction of new industrial parks in the Russian Federation, DEGA Group shall work exclusively with E.ON Connecting Energies in the area of decentralized delivery of the heat and electricity, generating and distributing equipment.

During the period from the date of acquisition to 31 December 2014 the share of the subsidiary acquired in the Group's revenues amounted to RUB 354,598 thousand, and profit to RUB 52,405 thousand. If the acquisition had occurred on 1 January 2014, the revenue of the Group for 2014 would have amounted to RUB 77,873,331 thousand, and the profit for 2014 would have amounted to RUB 16,544,472 thousand.

Disposal of 50% share in OOO E.ON Connecting Energies which owns 67% OOO Noginsky Teplovoy Center

On 1 June 2015, the Board of Directors of OAO E.ON Russia approved the sale of a 50 percent stake in OOO E.ON Connecting Energies, the Group’s wholly owned subsidiary, which owns 67 percent in OOO Noginsky Teplovoy Center. This share was sold to E.ON Connecting Energies GmbH (related party through parent company) for RUB 1,000 thousand, which was fully paid by cash in July 2015.

As a result of these changes the Group's ownership in OOO E.ON Connecting Energies equals a 50% and the Group lost control over OOO E.ON Connecting Energies from 01 July 2015. After loss of control the Group determined that OOO E.ON Connecting Energies as a joint venture in the business of distributed energy solutions in the Russian Federation and accounts a share in the net assets under the equity method. The shareholders agreement also provides that key strategic, operational and financial decisions are subject to approval by both participants.
As a result of this transaction, the effective share of the Group in OOO Noginsky Teplovoy Center has decreased from 67% to 34%.

The carrying values of disposed assets and liabilities of the Group’s share in OOO E.ON Connecting Energies and OOO Noginsky Teplovoy Cente were as follows:

	Carrying values
Goodwill related to purchase	499 082
Intangible assets	853 216
Property, plant and equipment	772 506
Accounts receivables and prepayments	31 050
Other current assets	26 966
Cash and cash equivalents	180 413
Deferred income tax liabilities	(216 526)
Other non-current liabilities	(271 875)
Financial liabilities	(1 257 985)
Accounts payable and accruals	(268 896)
Other current liabilities	(12 306)
Carrying value of net assets disposed	**335 645**

(RUB thousand)

	Carrying values
Non-controlling interest	407 338
Total carrying value of net assets disposed (without non-controlling interest)	**(71 693)**
Fair value of investment in joint ventures (50%)	1 000
Income from disposal of Group entities	(71 693)
The transaction value	1 000
Total cash and cash equivalents disposed	(180 413)
Total cash proceeds from disposal	**(179 413)**

The aforementioned property, plant and equipment in the amount of RUB 772,506 thousand and Intangible assets in the amount of RUB 853,216 thousand was included in the line "Disposal of subsidiaries" as disclosed in Notes 7 and 8.
The fair value of investment in joint ventures determined with financial liabilities.
Financial liabilities in the amount of RUB 1,257,985 thousand, which was owed to the Group was settled in December 2015 ahead of its maturity schedule. In order to repay this loan on 17 November 2015, the shareholders of OOO E.ON Connecting Energies decided to increase the authorized capital of OOO E.ON Connecting Energies as follows: until the end of 2015 in the amount of RUB 1 700 000 thousand by making every an additional contribution in the amount of RUB 850 000 thousand from each participant of OOO E.ON Connecting Energies after which the authorised capital will be RUB 1,702,000 thousand; the shares of the participants will not change, the nominal value of each participant's share will be RUB 851,000 thousand.

Prior to the disposal, the Group included balances and results of the operations of the disposed subsidiary in the Group's Consolidated Financial Statements.

As a result of disposal from 01 July 2015 the Group has accounted these entities as the joint ventures in accordance with the shareholders agreement between the Group and E.ON Connecting Energies (Note 9). Fair value of the 50% share in investment in joint ventures at the date of disposal of controlling interest amounted to RUR 1,000 thousand and the carrying value of the additionally disposed 50% share in the investment in joint-ventures was RUB 1,000 thousand.

(RUB thousand)

Note 7. Property, plant and equipment

	Land	Electricity and heat generation	Electricity distribution	Heating network	Construction in progress	Other	Total
Cost							
Balance at 1 January 2015	**83,455**	**96,597,849**	**8,409,191**	**1,021,983**	**42,599,219**	**11,744,561**	**160,456,258**
Additions	-	-	-	-	12,743,208	-	**12,743,208**
Transfers	2,025	40,240,745	1,174,706	103,699	(45,278,614)	3,757,439	**-**
Disposals	-	(19,590)	(64)	-	(671,867)	(111,886)	**(803,407)**
Disposals of subsidiaries	(15,503)	(326,616)	-	-	(98,346)	(575,148)	**(1,015,613)**
Balance at 31 December 2015	**69,977**	**136,492,388**	**9,583,833**	**1,125,682**	**9,293,600**	**14,814,966**	**171,380,446**
Accumulated depreciation (including impairment)							
Balance at 1 January 2015	**-**	**45,431,740**	**3,822,297**	**648,072**	**23,127**	**7,534,510**	**57,459,746**
Charge for the period	-	6,028,716	545,819	39,241	-	1,075,496	**7,689,272**
Impairment loss	-	485,804	45,154	34,377	42,791	91,509	**699,635**
Disposals	-	(18,008)	(54)	-	-	(109,923)	**(127,985)**
Disposals of subsidiaries	-	(91,990)	-	-	-	(151,117)	**(243,107)**
Balance at 31 December 2015	**-**	**51,836,262**	**4,413,216**	**721,690**	**65,918**	**8,440,475**	**65,477,561**
Net book value at 1 January 2015	**83,455**	**51,166,109**	**4,586,894**	**373,911**	**42,576,092**	**4,210,051**	**102,996,512**
Net book value at 31 December 2015	**69,977**	**84,656,126**	**5,170,617**	**403,992**	**9,227,682**	**6,374,491**	**105,902,885**

(RUB thousand)

Note 7. Property, plant and equipment (continued)

	Land	Electricity and heat generation	Electricity distribution	Heating network	Construction in progress	Other	Total
Cost							
Balance at 1 January 2014	**67,930**	**92,757,527**	**8,334,134**	**995,340**	**27,868,602**	**11,302,001**	**141,325,534**
Additions	-		-	-	19,018,390		**19,018,390**
Transfers	45	3,715,387	75,378	27,516	(4,287,773)	469,447	**-**
Reclassification	-	22,310	-	-	-	(22,310)	**-**
Acquisition of subsidiary	15,503	326,616	-	-	-	574,553	**916,672**
Disposals	(23)	(223,991)	(321)	(873)	-	(579,130)	**(804,338)**
Balance at 31 December 2014	**83,455**	**96,597,849**	**8,409,191**	**1,021,983**	**42,599,219**	**11,744,561**	**160,456,258**
Accumulated depreciation (including impairment)							
Balance at 1 January 2014	**-**	**40,118,489**	**3,230,197**	**604,436**	**11,505**	**6,944,588**	**50,909,215**
Charge for the period	-	5,203,764	586,029	41,267	-	1,106,268	**6,937,328**
Impairment loss	-	109,652	8,531	3,092	17,478	18,189	**156,942**
Reclassification	-	22,311	76	-	-	(22,387)	**-**
Acquisition of subsidiary	-	34,250	-	-	-	24,671	**58,921**
Disposals	-	(56,726)	(2,536)	(723)	(5,856)	(536,819)	**(602,660)**
Balance at 31 December 2014	**-**	**45,431,740**	**3,822,297**	**648,072**	**23,127**	**7,534,510**	**57,459,746**
Net book value at 1 January 2014	**67,930**	**52,639,038**	**5,103,937**	**390,904**	**27,857,097**	**4,357,413**	**90,416,319**
Net book value at 31 December 2014	**83,455**	**51,166,109**	**4,586,894**	**373,911**	**42,576,092**	**4,210,051**	**102,996,512**

(RUB thousand)

Note 7. Property, plant and equipment (continued)

At 31 December 2015, the carrying amount of property, plant and equipment reflects impairment and obsolescence loss of RUB 3,574,896 thousand (31 December 2014: RUB 3,315,839 thousand).

Due to the deterioration of the macroeconomic forecast and the associated decline in dynamics of electricity prices, the Group performed Impairment Test of fixed assets on Cash Generation Units (individual power plants) level. As a result, at the end of the third quarter of 2015, the total amount of the impairment loss was RUB 699,635 thousand, including Yaivinskaya GRES - RUB 492,458 thousand.

The recoverable amount of assets was determined as their value in use based on a discounted after-tax cash flows model. The significant assumptions in the discounted cash flow model are: forecasted prices for electricity and natural gas, anticipated production volumes and the discount factor applied in determining value in use. In the first pricing zone basic volume of electricity is generated from thermal generating facilities for which gas is used as main type of fuel; hence, increase in gas price results in increase in electricity price.

The key assumptions in relation to the discounted cash flows are:

• future natural gas prices were based on the Federal Tariff Service (FTS) tariffs and growth rates as forecasted by the Ministry of Economic Development of the Russian Federation. If the estimated future prices were to decrease by five percent for each year in the cash flow projection then, assuming that electricity prices decrease by the same percentage and the other parameters remain unchanged , the value in use of the above stations would have decreased and the respective impairment loss would have increased by RUB 10,925,219 thousand;

• future production volumes were based on the forecasts of the Ministry of Economic Development. If the estimated produced volumes would have decreased by one percent for each year in the cash flow projection, assuming that the other parameters remain unchanged, the value in use of the above stations would have decreased and the respective impairment loss would have increased by RUB 211,092 thousand;

• the after-tax discount rate was assumed to be 13.7% (2014-11.7%). If the discount rate was increased by 1pp (to 14.7%), then, assuming that the other parameters remain unchanged, the value in use of the above stations would have decreased and the respective impairment loss would have increased by RUB 1,194,256 thousand.

Disposals of assets in Construction in Progress include assets disposed due to shortages and losses from damage to property amounted RUB 130,208 thousand and disposal of assets to current activity amounted RUB 521,848 thousand.

At 31 December 2015, the Group evaluated assets' recoverable amounts at the level of cash-generating units (power plants). The results of this analysis showed that the Group did not have losses from the impairment of fixed assets.

Other property, plant and equipment include auxiliary production equipment, motor vehicles, computer equipment, office fixtures and other equipment.

Operating lease

OAO E.ON Russia leases a number of land plots owned by local governments under operating leases. Land lease payments are determined in accordance with existing agreements based on cadastral value of land plots and are subject to revision on a regular basis.

Operating lease charges determined based on lease payment rates effective as of the end of each reporting period are payable as follows :

	At 31 December 2015	At 31 December 2014
Less than one year	33,362	36,073
Between one and five years	130,726	169,728

(RUB thousand)

	At 31 December 2015	At 31 December 2014
More than five years	937,421	950,769
Total	**1,101,509**	**1,156,570**

OAO E.ON Russia leases the land where its electric power plants and other assets are located. Leases typically run for an initial period of 1–49 years, with an option to further extend the lease.

Note 8. Intangible assets

	Computer software	Licenses	Client relationships	Grid connection	Total
Cost					
Balance at 1 January 2015	**303,838**	**2,952**	**931,471**	**199,485**	**1,437,746**
Additions	149,999	118	-	-	**150,117**
Disposals	(62,166)	(112)	-	-	**(62,278)**
Disposals of a subsidiaries	(52)	-	(931,471)	-	**(931,523)**
Reclassification	43,204	-	-	-	**43,204**
Balance at 31 December 2015	**434,823**	**2,958**	**0**	**199,485**	**637,266**
Accumulated depreciation (including impairment)					
Balance at 1 January 2015	**138,915**	**1,394**	**49,498**	**82,967**	**272,774**
Charge for the period	85,188	294	28,796	19,950	**134,228**
Impairment	3,579	-	-	-	**3,579**
Disposals	(62,166)	(112)	-	-	**(62,278)**
Disposals of a subsidiaries	(13)	-	(78,294)	-	**(78,307)**
Reclassification	43,204	-	-	-	**43,204**
Balance at 31 December 2015	**208,707**	**1,576**	**-**	**102,917**	**313,200**
Net book value at 1 January 2015	**164,923**	**1,558**	**881,973**	**116,518**	**1,164,972**
Net book value at 31 December 2015	**226,116**	**1,382**	**-**	**96,568**	**324,066**

	Computer software	Licenses	Client relationships	Grid connection	Total
Cost					
Balance at 1 January 2014	**541,772**	**3,284**	**-**	**199,485**	**744,541**
Additions	102,405	3	**-**	-	**102,408**
Acquisition	-	-	931,471	-	**931,471**
Disposals	(340,339)	(335)	-	-	**(340,674)**
Balance at 31 December 2014	**303,838**	**2,952**	**931,471**	**199,485**	**1,437,746**
Accumulated depreciation (including impairment)					
Balance at 1 January 2014	**313,531**	**1,366**	**-**	**63,019**	**377,916**
Charge for the period	162,615	363	49,498	19,948	**232,424**
Impairment	3,108	-	-	-	**3,108**
Disposals	(340,339)	(335)	-	-	**(340,674)**
Balance at 31 December 2014	**138,915**	**1,394**	**49,498**	**82,967**	**272,774**
Net book value at 1 January 2014	**228,241**	**1,918**		**136,466**	**366,625**
Net book value at 31 December 2014	**164,923**	**1,558**	**881,973**	**116,518**	**1,164,972**

The decrease in intangible assets is mainly attributed to the disposal of OOO E.ON Connecting Energies, controlling OOO Noginsky Teplovoy Center (see Note 6).

(RUB thousand)

Note 9. Investments in joint ventures

OOO E.ON Connecting Energies and OOO Noginsky Teplovoy Center

On 1 June 2015, the Board of Directors of OAO E.ON Russia approved the sale of a 50 percent stake in OOO E.ON Connecting Energies, the Group's wholly owned subsidiary, which owns 67 percent in OOO Noginsky Teplovoy Center. This share was sold to E.ON Connecting Energies GmbH (related party through parent company) for RUB 1,000 thousand, which was fully paid in July 2015.

As a result of these changes the Group's ownership in OOO E.ON Connecting Energies equals a 50% and the Group lost control over OOO E.ON Connecting Energies from 01 July 2015. After loss of control the Group determined that investment as a joint venture in accordance with the shareholders agreement between Group and E.ON Connecting Energies GmbH (Note 6).

The following is the summarised financial information in respect of OOO E.ON Connecting Energies and OOO Noginsky Teplovoy Center.

The values, disclosed in the tables, represent total assets, liabilities, revenues, income (loss) of the Group's joint venture and not the Group's share.
The financial information may differ from information in the financial statements of the joint venture prepared and presented in accordance with IFRS, due to adjustments required in application of equity method of accounting, such as excluding intercompany adjustments.

	31 December 2015
Non-current assets	1,635,244
Current assets (including cash and cash equivalents − 31 December 2015: RUB 510,721 thousand)	596,716
Non-current liabilities	(447,230)
Current liabilities	(310,990)
Net assets	1,473,740
Non-controlling interest	(425,963)
Total net assets without non-controlling interest	**1,047,777**
Group's share	50%
Carrying value of the investment	523,888

	June- December 2015
Revenue	281,635
Operating expenses	(252,881)
Interest income	25,893
Interest expense	(70,694)
Income tax	(7,847)
Loss from continuing operations	(23,894)
Total comprehensive income	**(23,894)**
Profit attributable to Non-controlling interest	18,625
Total comprehensive loss without non-controlling interest	**(42,519)**
Proportion of the Group's ownership 50.00%	**50%**
Group's share of total comprehensive loss	**(21,260)**

Note 10. Inventories

Breakdown of inventories:

	At 31 December 2015	At 31 December 2014
Fuel production supplies	1,240,859	1,356,679
Materials and supplies	610,440	771,468
Other inventory	333,841	36,323
Provision for impairment of inventory	(18,563)	(14,931)
Total	**2,166,577**	**2,149,539**

Note 11. Accounts receivable and prepayments

	At 31 December 2015	At 31 December 2014
Trade and other receivables	8,558,996	7,623,270
Other financial receivables	71,653	356,960
Less provision for impairment of accounts receivable	(3,489,720)	(3,132,345)
Total financial assets within trade and other receivables	**5,140,929**	**4,847,885**
Prepayments to suppliers	375,314	471,194
VAT recoverable	222,986	402,282
Due from budget (excluding VAT)	40,476	261,722
Total accounts receivable and prepayments	**5,779,705**	**5,983,083**

Management has determined the provision for impairment of accounts receivable based on the customers' credit history, customer payment trends, the outlook for payments and settlements, and an analysis of expected future cash flows. Management believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements and that the recorded value therefore approximates the fair value.

The abovementioned accounts receivable and prepayments include amounts receivable from related parties (see Note 5).

Note 12. Short-term financial assets

	Effective interest rate, %	Balance at 31 December 2015 (foreign currency, thousand)	Balance at 31 December 2015 (RUB, thousand)	Balance at 31 December 2014 (foreign currency, thousand)	Balance at 31 December 2014 (RUB, thousand)
Total short-term deposits	**-**	**-**	**-**	**-**	**298,928**
Short-term deposits in US dollars	-	-	-	5 313	298,928
Short-term deposits in Euros	-	-	-	-	-
Short-term deposits in Russian roubles	-	-	-	-	-
Total promissory notes		**-**	**142,914**	**-**	**620,127**
Total short-term financial assets		**-**	**142,914**	**-**	**919,055**

The decrease in short-term financial assets is due to the management's decision not to place funds on deposit for a period longer than 90 days.

Note 13. Equity

The Group was formed through the combination of a number of businesses under common control. As the predecessor`s basis of accounting (see Note 2) was applied, the majority of the net equity recognised for the Group is based on the historic carrying value of the net assets contributed, as recorded in the IFRS financial statements of the predecessor enterprises, rather than the fair values of those assets.

(RUB thousand)

The actuarial gains and losses, cash flow hedges and fair value losses on available-for-sale financial assets are recorded in other reserves. Cash flow hedge was applied by the Group starting from 1 January 2009 (Note 2 and Note 25).

Each component of other comprehensive income, including current and deferred tax effects, is represented in the table below:

	2015			2014		
	Pre-tax amount	**Income tax expense**	**Post-tax amount**	**Pre-tax amount**	**Income tax expense**	**Post-tax amount**
Available-for-sale financial assets	7,558	-	7,558	1,140	-	1,140
Actuarial gain/(loss)	552,117	(110,423)	441,694	619,756	(123,951)	495,805
Cash flow hedges	2,183,283	(436,657)	1,746,626	1,902,224	(380,445)	1,521,779
Total	**2,742,958**	**(547,080)**	**2,195,878**	**2,523,120**	**(504,396)**	**2,018,724**

Share capital. The share capital consists of 63,048,706,145 ordinary shares with nominal value of 0.40 roubles totalling RUB 25,219,482 thousand. There were no changes in the share capital in 2015 and 2014.

Dividends. In accordance with the Russian legislation, the Group distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. These financial statements are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit.
However, this legislation and other statutory laws and regulations dealing with the profits distribution rights are open to legal interpretation and accordingly management believes at present that it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

The Company's General Shareholders' Meeting held on 26 June 2015 made the decision to pay dividends based on FY2014 results for the amount of RUB 17,504,994 thousand, or RUB 0.28 per 1 ordinary share.

The Company's General Shareholders' Meeting held on 26 June 2014 made the decision to pay dividends based on FY2013 results for the amount of RUB 18 926 506 thousand, or RUB 0.30 per 1 ordinary share. In addition, the Meeting decided to direct on dividends RUB 5 000 000 from retained earnings.

Note 14. Pension liabilities

The tables below provide information on defined benefit obligations, pension expenses, plan assets and actuarial assumptions at 31 December 2015 and 2014. Amounts recognised in the consolidated statement of financial position are:

	At 31 December 2015	**At 31 December 2014**
Present value of funded obligations	640,693	518,631
Fair value of plan assets	(79,951)	(69,271)
Total deficit of funded plans	**560,742**	**449,360**
Present value of unfunded obligations	240,580	211,256
Net liability in the consolidated statement of financial position	**801,322**	**660,616**

Amounts recognised as income and expense in the consolidated statement of comprehensive income:

	Year ended 31 December 2015	**Year ended 31 December 2014**
Current service cost	39,072	66,807
Interest cost	100,531	86,403
Interest income on plan assets	(10,335)	(5,337)

(RUB thousand)

	Year ended 31 December 2015	Year ended 31 December 2014
Past-service cost	(20,226)	(9,971)
Actuarial gains, recognised in the current period	6,968	(10,915)
Net expense recognised in profit and loss	**116,010**	**126,987**

Movements in the net liability recognised in the consolidated statement of financial position are as follows:

	At 31 December 2015	At 31 December 2014
Net liability at the beginning of the year	660,616	1,027,866
Net expense recognised in profit and loss	116,010	126,987
Employer contributions(payments made directly by the company)	(13,744)	(15,345)
Employer contributions (to plan assets)	(29,199)	(17,818)
Actuarial loss recognised in other comprehensive income	67,639	(461,074)
Net liability at the end of the period	**801,322**	**660,616**

Changes in the present value of the Group's pension obligations are presented below:

	Year ended 31 December 2015	Year ended 31 December 2014
Present value of pension obligations at the beginning of the year	729,887	1,109,739
Current service cost	39,072	66,807
Interest cost	100,531	86,403
Actuarial gains, arising of experience adjustments on plan liabilities	1,225	(146,261)
Actuarial gains, arising from changes in financial assumptions	79,358	(327,805)
Past-service cost	(20,226)	(9,971)
Benefits paid (payments made directly by the company)	(13,744)	(15,344)
Benefits paid from plan assets	(34,830)	(33,681)
Present value of defined benefit obligations (DBO) at the end of the year	**881,273**	**729,887**

The duration of liabilities is on average 5 years.

Adjustments arose due to the actual results differing from assumptions for assets and obligations:

	At 31 December 2015	At 31 December 2014	At 31 December 2013	At 31 December 2012	At 31 December 2011
Present value of defined benefit obligations (DBO)	881,273	729,887	1,109,739	1,188,651	1,022,729
Fair value of plan assets	(79,951)	(69,271)	(81,873)	(84,016)	(81,758)
Net liability in the consolidated statement of financial position	801,322	660,616	1,027,866	1,104,635	940,971
Gains arising from experience adjustments for plan liabilities	(1,225)	146,261	200,306	(19,820)	(31,911)
(Gains)/losses arising from experience adjustments for plan assets	5,976	(2,076)	(5,340)	2,784	2,133

The principal actuarial assumptions are as follows:

	At 31 December 2015	At 31 December 2014
Nominal discount rate	10%	13,5%
Inflation	6%	7%

(RUB thousand)

Future salary increase	8.12%	7%
Future financial support increases	6%	7%
Staff turnover	2.5%	2.5%
Mortality	Russian population table for 1998	Russian population table for 1998

The Group anticipates that the retirement age is 58 years for men and 54 years for women.

The movements in the plan assets are as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Fair value of plan assets at 1 January	69,271	81,873
Interest income on plan assets	10,335	5,337
Actual actuarial loss excluding interest income on plan assets	5,976	(2,077)
Employer contributions	29,199	17,819
Benefits paid	(34,830)	(33,681)
Fair value of plan assets at 31 December	**79,951**	**69,271**

Contributions expected to be paid to the plan during the annual period starting from the reporting date are RUB 40,000 thousand. Furthermore, the Group plans to make about RUB 15,000 thousand in payments to beneficiaries directly.

Plan asset structure:

	At 31 December 2015	At 31 December 2014
Corporate bonds	40%	40%
Shares in mutual funds	9%	15%
Bank deposits	0%	14%
Real estate	13%	14%
Shares	34%	10%
Accounts receivable	4%	7%
Cash	0%	0%

Sensitivity analysis of DBO as at 31 December 2015 is as follows:

Assumptions	Changes in assumptions	DBO changes, %	
Discount rate 12.5% per annum	Decrease by 1%	Increase	5.4%
Future wage increases	Increase by 1%	Increase	2.6%
Inflation	Decrease by 1.0%	Decrease	4.2%
Staff turnover	Increase by 2.5% for staff aged below 50	Decrease	2.9%
Disability	Decrease by 10%	Decrease	0.1%
Mortality	Decrease by 10%	Increase	1.2%

The sensitivity analysis was performed with respect to all benefits and with respect to both active and inactive participants.

Note 15. Accounts payable and accruals

	At 31 December 2015	At 31 December 2014
Financial liabilities	**5,561,653**	**4,982,180**
Trade payables	2,833,582	2,353,155
Accounts payable to capital construction contractors	1,747,415	1,636,935
Dividends payable	425,479	453,467
Other payables	555,177	538,623
Non-financial liabilities	**1,113,587**	**1,145,133**

(RUB thousand)

	At 31 December 2015	At 31 December 2014
Payables to employees	1,096,992	1,118,725
Advances from customers	16,595	26,408
Total	**6,675,240**	**6,127,313**

Note 16. Taxes payable other than income tax

	At 31 December 2015	At 31 December 2014
VAT	1,728,857	723,082
Property tax	385,914	129,869
Social taxes	65,743	47,058
Other	49,091	41,269
Total	**2,229,605**	**941,278**

Note 17. Income tax

Income tax charge

	Year ended 31 December 2015	Year ended 31 December 2014
Current income tax charge	(2,204,198)	(4,142,519)
Deferred income tax charge	(1,426,589)	90,347
Total	**(3,630,787)**	**(4,052,172)**

During the year ended 31 December 2015, the Group branches were subject to income tax on taxable profits at the following rates:

- 20% for such branches as Smolenskaya GRES, Shaturskaya GRES, Berezovskaya GRES and OAO E.ON Russia's Moscow head office;
- 18% for Surgutskaya GRES branch (according to Article 2.5 of Khanty-Mansi Autonomous Area-Yugra Law No. 87-OZ of 30 September 2011 on corporate income tax rates payable to the Khanty-Mansi Autonomous Area-Yugra budget);
- 15.5% for Yayvinskaya GRES Branch (according to Article 15, Perm Region Tax Law No. 1685 of 16 August 2001).

A reconciliation between the expected and actual tax charge is provided below:

	Year ended 31 December 2015	Year ended 31 December 2014
Profit before income tax	**17,421,272**	**20,937,101**
Theoretical tax charge at the statutory tax rate (20% for the year ended 31 December 2015 and 2014)	(3,484,254)	(4,187,420)
Non deductible expenses/ non-taxable income	(268,824)	(212,158)
Tax benefits effect (including from application of lower tax rate)	122,291	347,406
Total income tax charge	**(3,630,787)**	**(4,052,172)**

Effective tax rate for years 2015 and 2014 are 20.8% and 19.4% respectively.

Deferred income tax. Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets and liabilities are measured at the rate applicable when the temporary differences reverse, which is expected to be 20% as of 31 December 2015 and 31 December

(RUB thousand)

2014. The Group received tax reductions for some of its plants, but due to the fact that the Group has insufficient evidence that those reductions will be sustained for the longer term the Group has applied statutory rate of 20% to record its deferred tax assets and liabilities.

Deferred tax assets (liabilities) calculated on the temporary differences for balance sheet items are as follows:

	At 31 December 2015	Movement for 2015 recognised in the income statement	Movement for 2015 recognised in the statement of comprehensive income	Disposals	At 31 December 2014
Deferred tax liabilities					
Property, plant and equipment	(7,724,807)	(1,613,937)	-	112,269	(6,223,139)
Short-term financial liabilities	(14,326)	49,796	(56,212)	-	(7,910)
Intangible assets	(9,489)	(13,818)	-	173,521	(169,192)
Other	(3,330)	(3,330)	-	-	-
	(7,751,952)	**(1,581,289)**	**(56,212)**	**285,790**	**(6,400,241)**
Deferred tax assets					
Accounts payable and accruals	306,680	75,537	-	-	231,143
Accounts receivables	186,197	73,826	-	(14,889)	127,260
Pension liabilities	160,264	14,613	13,528	-	132,123
Other non-current assets	82,002	18,229	-	-	63,773
Inventories	65,454	3,935	-	-	61,519
Other	-	(31,440)	-	(54,375)	85,815
	800,597	**154,700**	**13,528**	**(69,264)**	**701,633**
Total deferred tax liability at the end of the year	**(6,951,355)**	**(1,426,589)**	**(42,685)**	**216 526**	**(5, 698,608)**

	At 31 December 2014	Movement for 2014 recognised in the income statement	Movement for 2014 recognised in the statement of comprehensive income	Acquisition	At 31 December 2013
Deferred tax liabilities					
Property, plant and equipment	(6,223,139)	(630,090)	-	(114,465)	(5,478,585)
Intangible assets	(169,192)	17,102	-	(186,294)	-
Short-term financial liabilities	(7,910)	226,338	(232,590)	-	(1,658)
Accounts receivables	-	92,085	-	-	(92,085)
Inventories	-	349	-	-	(349)
Other	-	2,727	-	-	(2,727)
	(6,400,241)	**(291,489)**	**(232,590)**	**(300,759)**	**(5,575,404)**
Deferred tax assets					
Accounts payable and accruals	231,143	72,922	-	-	158,221
Pension liabilities	132,123	18,765	(92,215)	-	205,573
Accounts receivables	127,260	127,260	-	-	-
Other non-current assets	63,773	24,504	-	-	39,269

(RUB thousand)

	At 31 December 2014	Movement for 2014 recognised in the income statement	Movement for 2014 recognised in the statement of comprehensive income	Acquisition	At 31 December 2013
Inventories	61,519	61,519	-	-	-
Other non-current liabilities	54,375	54,375	-	-	-
Intangible assets	-	(8,949)	-	-	8,949
Other	31,440	31,440	-	-	-
	701,633	**381,836**	**(92,215)**	**-**	**412,012**
Deferred tax liability at the end of the year	**(5, 698,608)**	**90,347**	**(324,805)**	**(300,759)**	**(5,163,392)**

Long-term deferred tax liabilities and assets as of 31 December 2015 and 31 December 2014 are (7,492,030) and (6,142,060) thousand rubles accordingly.

Note 18. Revenue

	Year ended 31 December 2015	Year ended 31 December 2014
Electricity and capacity	74,397,435	75,319,817
Heat	1,217,463	1,245,721
Other	1,090,656	1,127,596
Total	**76,705,554**	**77,693,134**

The Group sells electricity and capacity through the wholesale electricity and capacity market (“WECM”), under regulated contracts with predetermined volumes and tariffs approved by Federal Tariff Service, and at competitive (unregulated) prices.

Electricity and capacity are sold on the WECM directly to retail companies. At the same time, some WECM transactions are conducted on the day-ahead market or balancing electricity market, through commission agreements with ZAO Centre for Financial Settlements (“CFS”).

CFS is the entity responsible for ensuring secure and monitoring of financial settlements under all contracts involving WECM participants. Its principal function is to provide a range of services regarding the calculation of WECM participants’ receivables and liabilities, as well as those regarding the fulfilment of financial settlements between them.

The companies, industrial consumers or the generation companies which buy the electric power and power for ensuring own deliveries in the regulative sector are the actual contractors in transactions on WECM made through CFS who acts as the commission agent. The enterprises, which are under state control, act as contractors, too.

Note 19. Other operating income

	Year ended 31 December 2015	Year ended 31 December 2014
Insurance compensation	2,794,435	108,730
Other income	87,074	13,246
Gain for service contracts	61,165	-
Income resulting from inventory	38,232	-
Penalties from other market participants	30,637	18,538
Gain on sale and disposal of property, plant and equipment	19,724	174,460

(RUB thousand)

	Year ended 31 December 2015	Year ended 31 December 2014
Gain on sale and disposal of inventories	19,271	10,705
Release of provision for bonuses and insurance provision	3,885	52,487
Prior periods' gains	2,482	241,523
Total	**3,056,905**	**619,689**

Insurance compensation for FY 2105 includes gain for compensation of a roof collapse at power units No.4 and No.7 of Surgutskaya GRES-2 for RUB 2,784,218 thousand (for 2014 – RUB 80,000 thousand).

Note 20. Operating expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Fuel	35,498,282	37,605,895
Depreciation and amortisation of PPE and intangible assets	7,492,752	6,930,848
Staff costs	5,973,646	5,594,717
Repairs and maintenance	3,327,860	1,541,009
Purchase of electricity and heat	1,989,141	1,224,865
Taxes other than income tax	1,384,720	1,208,899
Operational dispatch management	1,254,927	1,191,173
Impairment of property, plant and equipment and intangible assets	703,212	158,638
Security	428,151	397,721
Provision for impairment of accounts receivable	417,004	554,837
Raw materials and supplies	350,271	306,257
Water usage expenses	170,711	166,478
Insurance cost	162,821	161,596
Transportation expenses	147,686	132,196
Rent expenses	102,389	160,849
Other expenses	3,643,952	1,956,159
Total	**63,047,525**	**59, 292,137**

Repairs and maintenance expenses for FY 2015 include the costs of repair for power units No.4 and No.7 of Surgutskaya GRES-2 in the amount of RUB 1,921,095 thousand (for FY 2014 - RUB 0 thousand).

This damage was partly compensated by the insurance company in accordance with the terms of the insurance contract. Other operating income for FY 2015 includes this insurance compensation in the amount of RUB 1,250,138 thousand (for FY 2014 - RUB 0 thousand).

Other expenses for FY 2015 include an accrual for penalty for delay of four months FY 2015 in delivery capacity from block №3 Berezovskaya GRES in the amount of RUB 1,780,057 thousand (for FY 2014 - RUB 0 thousand).

Staff costs include:

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries and wages, including payroll taxes	4,994,806	4,708,148
Pension costs – defined contribution plans (including state pension fund)	929,859	797,212
Pension costs – defined benefit plans	17,377	54,513
Termination benefits	31,604	34,844
Total staff costs	**5,973,646**	**5,594,717**

Note 21. Finance income and expense

Finance income

	Year ended 31 December 2015	Year ended 31 December 2014
Interest income (deposits and cash)	1,089,886	1,564,271
Foreign exchange gains	-	372,727

	Year ended 31 December 2015	Year ended 31 December 2014
Other interest income	166,691	97,090
Total	**1,256,577**	**2,034,088**

Finance expense

	Year ended 31 December 2015	Year ended 31 December 2014
Foreign exchange losses	210,985	-
Interest expenses (loan received)	187,092	-
Effect of accounts receivable discounting	130,902	117,672
Total	**528,979**	**117,672**

Note 22. Basic and diluted earnings per share payable to shareholders of OAO E.ON Russia

Basic earnings per share are calculated by dividing the net profit attributable to the Group's shareholders by the weighted average number of outstanding ordinary shares, excluding treasury stock.

	Year ended 31 December 2015	Year ended 31 December 2014
Weighted average number of ordinary shares, outstanding during the year, net (shares)	63,048,706,145	63,048,706,145
Profit attributable to the shareholders of OAO E.ON Russia (RUB thousand)	13,676,222	16,813,434
Basic and diluted earnings per share attributable to shareholders of OAO E.ON Russia (in RUB)	0.21	0.27

Diluted earnings per share are equal to basic earnings as there were no contracts with a potential dilutive effect for FY 2015 and FY 2014.

Note 23. Commitments

Sales Commitments. The Group sells electricity (capacity) in the wholesale market of electricity and capacity in accordance with the agency contract between the Group, ZAO CFS, OAO System Operator, OAO ATS and NP Market Council for Organising Efficient System of Trading at Wholesale and Retail Electricity and Capacity Market This contract is published in website http://www.np-sr.ru/regulation/joining/index.htm

Also the Group has concluded contracts for sales of capacity with wholesale market counterparties (contracts for sales of capacity).

Fuel commitments. The Group has concluded a number of fuel supply contracts (natural gas, fuel oil and coal).

The principal natural gas suppliers are OAO NOVATEK, OAO NK Rosneft, OOO NOVATEK-Perm, OAO Surgutneftegaz, OOO LUKOIL-Rezervnefteproduct. Contracts with these suppliers have been concluded for the mid-term and long-term.
The main coal supplier is OAO Sibirskaya ugolnaya energeticheskaya kompaniya. Contract with it have been concluded for the term more than 5 years up to 2025.

Contracts with suppliers of gas and coal allow changes in the volume supply of fuel according to the actual needs of the Group with certain take-or-pay conditions for contracts. This significant change in fuel delivery volume requires additional coordination with suppliers.
Some contracts for the supply of gas includes conversion price in the event of cost overruns or significant shortage of gas without coordination with suppliers, which could lead to an increase in the cost of fuel.

Cost of purchasing gas and coal in 2015 is RUB 32,042,230 thousand (in 2014 is RUB 34,410,154 thousand) and RUB 3,300,251 thousand (in 2014 is RUB 3,050,679 thousand), respectively (without VAT).

Purchase of fuel oil for the needs of power plants of the Group is performed periodically, as the need arises. Contracts for the supply of fuel oil are concluded following appropriate procurement procedures. Cost of purchasing oil for 2015 is – RUB 215,920 thousand (in 2014 is RUB 223,279 thousand).

All fuel purchase contracts of the Group were concluded for the purpose of fuel receipt in accordance with the Group's expected own usage requirements and are out of scope of IAS 39 "Financial Instruments: Recognition and Measurement".

Capital commitments. As of 31 December 2015, the Group had contractual capital expenditure commitments with respect to property, plant and equipment totalling RUB 2,366,791 thousand (2014: RUB 5,139,446 thousand). The commitments on 31 December 2015 (RUB 856,073 thousand) refer to commitments of realization of the project "Construction of the 3rd power unit PSU-800 on the basis of branch "Berezovskaya GRES" (2014: RUB 4,582,225 thousand).

On 1 October 2015 the 3rd unit at Berezovskaya GRES was commissioned.

Note 24. Contingencies

Political environment. The Group's operations and earnings continue, intermittently and to varying degrees, to feel the impact of Russian political, legislative, fiscal and regulatory developments, including those related to environmental protection.

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

Social obligations. The Group has a responsibility to those regions where it operates to contribute to the development of favourable living conditions, create jobs and minimise harm to the environment. It also has a responsibility to the public and government authorities to pay taxes, support important public initiatives, and participate in the social and economic development of the regions.

Guided by the principles of corporate responsibility, the Group believes it is important to contribute to the development of those regions where it has a presence. Following this, the Group is extensively involved in funding social and charity programmes to support vulnerable segments of society, first and foremost: children and pensioners. Particular attention is paid to the development of educational programmes for schoolchildren and students. A variety of sports events are also supported.

The Group continues traditions present in power plants which have come under its control: providing charity support to various organisations, public associations and individuals in those regions where these power plants operate. The Group spent RUB 51,727 thousand on these programmes in 2015 (in 2014: RUB 31,221 thousand).

Tax contingencies. The Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Group management's interpretation of such legislation as applied to the Group's transactions and activity may be challenged by the regional and federal authorities.

The Russian tax authorities may take a more assertive and sophisticated approach in their interpretation of the legislation and tax assessments. This includes the Supreme Arbitration Court's resolutions on anti-avoidance claims based on reviewing the substance and business purpose of transactions. In addition, this position is affected by a possible increase in tax collection efforts in response to budget pressures.

During 2015 year Group received tax authorities decisions for property tax amounted to RUB 307,343 thousand (Yayvinskaya GRES and Shaturskaya GRES) (for 2014: RUB 86,827 thousand) and for income tax and VAT amounted to RUB 343,650 thousand (for 2014: 40,632 thousand). All these taxes accrued in these financial statements.

Also, the Group has estimated liabilities related to property tax risks in the amount of RUB 107,633 thousand (for 2014: 0 thousand). The liabilities have been accrued in the Group's Financial Statements.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Management believes that as of 31 December 2015 its interpretation of the relevant law is appropriate and that the Group's position is sustainable as it relates to application of tax, currency and customs legislation.

Environmental matters. The Group has a long history of operating in the Russian electricity industry. The enforcement of Russian environmental regulation is evolving, and the position of government authorities on enforcing these regulations is continually being reconsidered.

Management believes that in the conditions of effective legislation on environmental protection the Group does not have material liabilities associated with environmental pollution.

Note 25. Financial instruments and financial risk factors

Within the Group, the risk management control function regarding financial risks, operational risks and legal risks is carried out by the Risk and Finance Committee of the Board of Directors. Financial risks comprise market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and ensure that exposure remains within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Market risk

Interest rate risk. The Group is not significantly exposed to fair value interest rate risk, as the Group does not have significant financial assets and liabilities with fixed interest rates. However, the Group does have interest-bearing assets which are exposed to cash flow interest rate risk. The Group's significant interest-bearing assets are disclosed in Note 12.

Currency risk. Profit and cash flows from the Group's current operations are largely independent of changes in the Russian rouble's exchange rate. The Group sells the produced electricity and heat in Russia and receives payment in Russian roubles; hence associated operational expenses are also mainly denominated in roubles.

However, the Group does have foreign-currency commitments as part of commitments in connection with the service contracts for maintenance of new CCGT`s and other contracts, the amount of obligations under which exceeds EUR 10 million excluding VAT. A hedging strategy was developed and implemented against financial risks related to currency purchases for these commitments (hedged item).

Earlier the Group implemented a policy of cash flow hedging using foreign-currency bank deposits and derivative financial instrument transactions regarding currency risks related to foreign currencies cash outflows in the investment programme.

Gains and losses from reclassification are generally reported in that line item of the income statement, which also includes the respective, hedged transaction. Gains and losses from the ineffective portions of cash flow hedges are classified as the respective foreign exchange gains (losses).

The fair values of the designated hedging instruments in cash flow hedges at December 31, 2015 totaled RUB 3,785,688 thousand (December 31, 2014: RUB 5,269,892 thousand).

As of December 31, 2015, the hedged transactions could effect to the Consolidated Statement of Comprehensive Income with maturities of up to 35 years (2014: up to 21 years).

Cash flow hedging proved effective, and correspondingly no inefficiency was recognized in profit or loss during the FY 2015 and 2014.

As of December 31, 2015 and 2014, the following effects will accompany the reclassifications from accumulated other comprehensive income to the income statement in subsequent periods.

Timing of Reclassifications from other reserves in equity to the profit or loss at 31.12.2015:

(RUB thousand)

	Carrying amount	Expected gains 2016	2017	2018-2020	>2020
OCI-Currency cash flow hedges	1,746,626	579,574	79,574	238,722	848,756

Timing of Reclassifications from other reserves in equity to the profit or loss at 31.12.2014:

	Carrying amount	Expected gains 2016	2017	2018-2020	>2020
OCI-Currency cash flow hedges	1,521,779	156,719	156,719	470,158	738,183

An income of RUB 804,422 thousand (2014: an income of RUB 1,087,080 thousand), net of income tax, was posted to other comprehensive income in 2015. In the same period, an income of RUB 579,574 thousand (2014: an income of RUB 156,719 thousand), net of income tax, was reclassified from other reserves in equity to the profit or loss.

The table below summarises the Group's exposure to foreign currency exchange rate risk:

	At 31 December 2015			At 31 December 2014		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
Russian rouble	11,681,377	(5,263,705)	6,417,672	14,433,539	(4,672,079)	9,761,460
US Dollar	2,328,192	(2,290)	2,325,902	3,472,228	(63,137)	3,409,091
Euro	1,484,572	(295,662)	1,188,910	1,797,973	(246,964)	1,551,009
Total	**15,494,141**	**(5,561,657)**	**9,932,484**	**19,703,740**	**(4,982,180)**	**14,721,560**

The following table presents the Group's sensitivity to possible exchange rate changes applied at the reporting date relative to the Group entities' functional currency, with all other variables remaining constant:

	At 31 December 2015		At 31 December 2014	
	Impact on profit or loss	**Impact on other comprehensive income**	**Impact on profit or loss**	**Impact on other comprehensive income**
Incremental (loss) / profit from US Dollar strengthening by 20%	(458)	465,639	(12,627)	694,446
Incremental profit / (loss) from US Dollar weakening by 20%	458	(465,639)	12,627	(694,446)
Incremental (loss) / profit from Euro strengthening by 20%	(59,132)	296,914	(49,393)	359,595
Incremental profit / (loss) from Euro weakening by 20%	59,132	(296,914)	49,393	(359,595)

Exposure was only calculated for monetary balances denominated in currencies other than the Group's functional currency. The Group's exposure to currency risk at the balance sheet date is representative of the typical exposure during the year.

Credit risk. The financial assets that are potentially subject the Group to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation, consist principally of the following items:

	At 31 December 2015	At 31 December 2014
Cash	9,363,083	13,100,785
Trade receivables	5,069,276	4,490,925

(RUB thousand)

	At 31 December 2015	At 31 December 2014
Other non-current assets	847,214	780,272
Promissory notes	142,914	620,127
Other receivables	71,653	356,960
Available-for-sale financial assets	30,185	23,767
Bank deposits	-	298,928
Contribution to special partnership	-	31,976
Total	**15,524,325**	**19,703,740**

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

Trade and other receivables

Management believes that the majority of customers whose balances are included in trade receivables represent a single class, as they have the same characteristics. Those customers belong to the same wholesale electricity market, which is regulated by NP ATS (Non-Commercial Partnership Trade System Administrator).

Due to the absence of an independent evaluation of buyers' and customers' solvency, credit risk is evaluated at the stage of entering into an agreement with a potential debtor. The Group evaluates the financial position and credit record of the counterparty. Existing receivables are monitored in the Group's divisions, and collection measures are taken regularly.

Management has determined the provision for the impairment of accounts receivable based on the specific customer's financial position, customer's payment trends, subsequent receipts and settlements, and analysis of expected future cash flows. Management believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value approximates the fair value (Level 3 fair value hierarchy).

The Group tested trade and other receivables for impairment, and the results are as follows:

	At 31 December 2015	At 31 December 2014
Current	5,127,379	4,769,435
Impaired	3,489,720	3,132,345
Past-due but not impaired	13,550	78,451
Provision for impairment of accounts receivable	(3,489,720)	(3,132,345)
Total trade and other receivables	**8,630,649**	**7,980,230**

The movements in the provision for impairment of accounts receivable are provided in the table below:

	Year ended 31 December 2015	Year ended 31 December 2014	Change
Balance at 1 January	**3,132,345**	**2,577,508**	
Provision for impairment of accounts receivable	658,637	799,690	(141,053)
Reversal of provision	(257,060)	(200,498)	(56,562)
Accounts receivable write-down during the reporting period as bad debt	(44,202)	(44,355)	153
Balance at 31 December	**3,489,720**	**3,132,345**	

Cash and cash equivalents

The Group's Board of Directors approved the list of banks acceptable for placing deposits. The Group continuously assesses these banks' financial position and reviews ratings assigned by independent agencies, past practice and other factors.

(RUB thousand)

The Group placed cash and cash equivalents in the following banks (ratings are given as of 31 December 2015):

Name	Rating	Rating agency	At 31 December 2015	At 31 December 2014
Sberbank of Russia	Ba2	Moody's	2,783,861	4,997,849
AO UniCredit Bank	BBB-	Fitch	2,999,750	3,243,193
OOO HSBC Bank (RR)	BBB-	Fitch	-	2,000,000
Bank GPB (JSC)	Ba2	Moody's	2,409,315	1,218,209
VTB Bank (public joint-stock company)	Ba2	Moody's	1,152,694	979,907
JSC Nordea Bank	BBB-	Fitch	-	600,000
JSB “ROSEVROBANK” (JSC)	B1	Moody’s	-	14,789
Vozrozhdenie Bank	B1	Moody’s	3,512	5,963
AO «ALFA-BANK»	Ba2	Moody’s	-	32
Bank «ROSSIYA»	-	-	11,408	-
Other banks and cash in hand			2,543	40,843
Total cash			**9,363,083**	**13,100,785**

The decrease in cash and cash equivalents as of 31 December 2015 is mainly explained by the decrease in deposits with a maturity of less than 3 months classified as cash equivalents.

Liquidity risk. Reasonable liquidity risk management includes having sufficient funds to support the Group’s continued operations.
The majority of the Group’s accounts payable are of a short-term nature (less than one month) and stem from the Group’s agreements with fuel suppliers and production-related service providers.
The Group has significant commitments as part of its investment programme and is planning to meet the associated expenditure from funds placed on deposit and cash flows from operating activity. Management controls its liquidity risk by preparing detailed cash flow forecasts.

Fair values. Management believes that the fair value of financial assets and liabilities approximates their carrying value (Level 3 and Level 2 fair value hierarchy).

Reconciliation of classes of financial instruments with measurement categories
Under IAS 39, the Group classifies its financial assets into the following categories: (a) loans and receivables, and (b) available-for-sale financial assets. The following table provides a reconciliation of the classes of financial assets with these measurement categories:

	At 31 December 2015	At 31 December 2014
ASSETS		
Loans and receivables		
Accounts receivable and prepayments (Note 11)	**5,140,929**	**4,847,885**
Trade receivables	5,069,276	4,490,925
Other financial receivables	71,653	356,960
Short-term financial assets (Note 12)	**142,914**	**919,055**
Bank deposits	-	298,928
Promissory notes	142,914	620,127
Long-term financial assets	**847,214**	**780,272**
Promissory notes	690,541	636,010
Loans issued to employees	156,673	144,262
Cash and cash equivalents	**9,363,083**	**13,100,785**
Total loans and receivables	**15,494,140**	**19,647,997**
Available-for-sale financial assets		
Long-term financial assets	**30,185**	**23,767**
Total available-for-sale financial assets	**30,185**	**23,767**
Contribution to special partnership	**-**	**31,976**
Total financial assets	**15,524,325**	**19,703,740**

(RUB thousand)

During 2015 the Group received non-interest bearing banking promissory notes Bank GPB (JSC) (Moody's credit rating Ba2) and VTB Bank (public joint-stock company) (Moody's credit rating Ba2) as a settlement of customer debt for electricity and capacity sold at the amount RUB 862,559 thousand.

These promissory notes initially are recognized at their fair value as at the date of purchase. The fair values of these promissory notes were determined based on repayment dates and discount rates (using the average rate received on RUB deposits opened during 2015).

Note 26. Risks associated with capital (capital management)

When managing capital, the Group's objectives are to safeguard the Group's ability to continue as a going concern and provide returns to shareholders, and to maintain an optimal capital structure to reduce capital costs. Russian law details the following capital requirements:

– Share capital in a public company must be at least 100,000 RUB;
– If the company's share capital exceeds its net assets, the company must either increase its net assets to the amount of company's share capital or decrease its share capital to a value not exceeding its net assets;
– If the company's net assets are below the minimum allowed share capital, the company will be subject to liquidation.

As of 31 December 2015 and 2014, OAO E.ON Russia's capital complied with these requirements.

The Group's capital ensures the Group's ability to continue operating, provide returns to shareholders and remuneration to other stakeholders, and to maintain an optimal structure for increasing return on capital.

To support or adjust the capital structure, the Group can regulate the amount of dividends that have been paid out, return capital to shareholders, issue new shares or sell assets to repay debts.
The Group uses the debt factor to manage capital structure.
The debt factor is calculated as net debt divided by EBITDA, determined as earnings before interest, tax, depreciation, amortization and impairment of PPE and intangible assets. The value of net debt is determined as the sum of total financial and pension liabilities in the consolidated statement of financial position less total financial assets.

The Group's strategy in 2015 was to maintain the debt factor at a level not exceeding 3.

The debt factor is presented below:

	At 31 December 2015	**At 31 December 2014**
Trade and other receivables (Note 11)	5,140,929	4,847,885
Short-term financial assets (Note 12)	142,914	919,055
Cash and cash equivalents	9,363,083	13,100,785
Long-term financial assets	877 399	836,015
Total financial assets	**15,524,325**	**19,703,740**
Accounts payable and accruals (Note 15)	(5,561,653)	(4,982,180)
Total financial liabilities	(5,561,653)	**(4,982,180)**
Pension liabilities	**(801,322)**	**(660,616)**
Excess of financial assets over financial and pension liabilities	9,161,350	14,060,944

The nil debt factor demonstrates low dependence on external financing at the reporting date (for both – FY2015 and FY 2014).

(RUB thousand)

Note 27. Segment information

The Group's chief operating decision-maker is the General Director and Management board (hereinafter «Chief operating decision-maker»), who review the Group's internal reporting forms prepared in accordance with E.ON Group's Accounting Manual in order to assess the Group's performance and allocate resources efficiently. E.ON Group's Accounting Manual is based on IFRS; however, the amounts may differ as the Company's internal reporting forms are intended for the purpose of the preparing consolidated financial statements for the entire E.ON Group. Operating segments are determined based on the above internal reporting forms.

The Chief operating decision-maker assess performance on a plant-by-plant basis, i.e. the performance of each of the 5 power plants: Surgutskaya GRES-2, Berezovskaya GRES, Shaturskaya GRES, Yayvinskaya GRES and Smolenskaya GRES. All GRES are combined into one operating segment, as they have similar economic and other characteristics. The other segments comprise costs of the Moscow office, and subsidiaries.

The Chief operating decision-maker assesses the performance of the operating segments based on earnings before interest, tax, depreciation and amortization (EBITDA) and revenue. In addition, the information on amortization of non-current assets and earnings before interest and tax (EBIT) is provided to the Chief operating decision-maker. Information regarding assets and liabilities of a segment base are not provided to the Chief operating decision-maker.

	Year ended 31 December 2015	**Year ended 31 December 2014**
Earnings before interest, tax, depreciation and amortization for 5 power plants (EBITDA)	28,422,391	28,193,688
Other segments	(3,709,108)	(1,664,839)
Total earnings before interest, tax, depreciation and amortization (EBITDA)	**24,713,283**	26,528,849
Depreciation and amortization	(6,567,429)	(7,555,256)
Total earnings before interest and tax (EBIT)	**18,145,854**	**18,973,593**

Reconciliation of earnings before interest and tax (EBIT) for operating segments provided to the Chief operating decision-maker, with profit before tax as in this consolidated financial information of the Group, is provided below:

Earnings before interest and tax (EBIT)	**18,145,854**	**18,973,593**
Adjustment of positive currency difference in EBIT	(119,578)	(441,240)
Finance income	1,256,577	2,034,088
Finance expense	(528,979)	(117,672)
Other adjustments	(1,332,602)	488,333
Profit before income tax	**17,421,272**	**20,937,102**

Other adjustments are mainly related to the following items:

	Year ended 31 December 2015	**Year ended 31 December 2014**
Difference in depreciation and impairment of property, plant and equipment and capitalised repair costs	(1,713,096)	411,448
Difference in accrual of property tax	128,419	-
Difference in Hedging	106,653	-
Difference in forex	-	77,324
Other	145,422	(439)
Differences in amounts for the purposes of E.ON SE (formerly E.ON AG) consolidated financial statements	**(1,332,602)**	**488,333**

(RUB thousand)

Reconciliation of revenue from external customers for all 5 power plants to total revenue:

	Year ended 31 December 2015	Year ended 31 December 2014
External revenue of 5 power plants	75,482,157	76,466,225
Other segments	1,223,397	1,226,909
Total	**76,705,554**	**77,693,134**

The Group's revenues are analysed by products and services in Note 18.

Revenues from customers representing 10% or more of the total revenues are as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
ZAO CFS	44,853,395	49,635,667
Others (mainly distribution companies, under 10% each)	31,852,159	28,057,467
Total revenues according to the Group`s financial statements	**76,705,554**	**77,693,134**

Note 28. Events subsequent to the balance sheet date

The accident at the branch "Berezovskaya GRES"

On February 1, 2016, a fire erupted in the boiler house of unit 3 at Berezovskaya GRES which has a capacity of 800 MW. As result of fire, significant parts of the boiler were damaged and will have to be replaced.

After the accident the 800 MW unit was removed out of service for unscheduled repair of at least for 20 months during which it will not be generating an electricity margin and will be losing a significant part of its capacity payment. Management considers that there are no fines to be paid by the company for not providing capacity during the outage.

Currently management evaluates the magnitude of the damage to the boiler with the objective to assess the length of the forced outage as well as costs of restoration amounted at least 15 billion RUB. The Group is insured against all contractor's risks and property damage from all risks, machinery breakdown due to internal causes and business interruption for 12 months from the date of event. Investigation involving representatives of the insurance companies have been started to determine the amount of insurance compensation.

Management considers that a significant part of the damage is to be compensated by insurance.