Joint Stock Company
Territorial Generating Company №1
and its subsidiaries

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor’s Report

2015

Contents

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AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Joint Stock Company "Territorial Generating Company №1" (JSC "TGC-1")

Audited Entity

Joint Stock Company "Territorial Generating Company №1" (JSC "TGC-1")

JSC "TGC-1" is registered by Inter-District Tax Inspectorate of the Federal Tax Service No. 15 of the City of Saint-Petersburg. Registered in the Unified State Register of Legal Entities on 25 March 2005 under the state registration number 1057810153400.

Registered office: Litera B, 6 Bronevaya Ulitsa, Saint-Petersburg, 198188, Russian Federation.

Auditor

BDO Unicon Aktsionernoe Obshchestvo (BDO Unicon AO)

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

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

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

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

We have audited the accompanying consolidated financial statements of JSC "TGC-1" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and explanatory notes to the consolidated financial statements for the year ended 31 December 2015 which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management of JSC "TGC-1" is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and legislation of the Russian Federation in respect of the preparation of the consolidated financial statements, and for the internal control system necessary for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC "TGC-1" and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and legislation of the Russian Federation in respect of the preparation of the consolidated financial statements.

Other Matter

The consolidated financial statements for the year ended 31 December 2014 were audited by another auditor, who expressed an unmodified opinion on those consolidated financial statements on 10 March 2015.

BDO Unicon AO

АКЦИОНЕРНОЕ ОБЩЕСТВО • ОГРН 1037739271701 • МОСКВА •
«БДО Юникон»

S. Albu

Partner

10 March 2016

Total number of pages bound: 59.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

(in thousands of Russian Roubles)

	Notes	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	7	132 033 165	128 476 563
Investment property		181 232	88 489
Intangible assets		700 553	506 919
Investments in associates	8	395 544	427 137
Deferred income tax assets	9	438 839	302 332
Other non-current assets	10	1 273 073	369 044
Total non-current assets		**135 022 406**	**130 170 484**
Current assets			
Cash and cash equivalents	11	1 701 151	2 265 399
Short-term investments	12	42 073	30 073
Trade and other receivables	14	15 025 863	15 009 886
Current income tax prepayments		250 446	120 705
Inventories	15	2 636 994	2 646 806
Non-current assets held for sale	13	215 846	86 651
Total current assets		**19 872 373**	**20 159 520**
TOTAL ASSETS		**154 894 779**	**150 330 004**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	38 543 414	38 543 414
Share premium	16	22 913 678	22 913 678
Merger reserve	16	(6 086 949)	(6 086 949)
Other reserves		(1 209 011)	(1 209 011)
Effect of remeasurements of post-employment benefits obligations		(11 672)	128 851
Retained earnings		43 014 555	37 821 995
Equity attributable to the Company's owners		**97 164 015**	**92 111 978**
Non-controlling interest	33	8 365 373	8 605 089
TOTAL EQUITY		**105 529 388**	**100 717 067**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	17	16 807 500	21 260 080
Deferred income tax liabilities	9	10 825 246	10 258 223
Post-employment benefits obligations	19	958 732	724 666
Other non-current liabilities	18	185 623	208 755
Total non-current liabilities		**28 777 101**	**32 451 724**
Current liabilities			
Short-term borrowings	20	13 030 655	8 692 944
Trade and other payables	21	6 438 527	7 015 331
Current income tax payable		32 835	-
Other taxes payable	22	1 086 273	1 452 938
Total current liabilities		**20 588 290**	**17 161 213**
TOTAL LIABILITIES		**49 365 391**	**49 612 937**
TOTAL EQUITY AND LIABILITIES		**154 894 779**	**150 330 004**

Approved for issue and signed on 10 March 2016.

General Director A. V. Barvinok

Chief Accountant R. V. Stanishevskaya

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Revenue			
Sales of electricity		38 665 866	40 198 234
Sales of heat		29 625 783	27 691 439
Other sales	23	1 132 252	1 106 540
Total revenue		**69 423 901**	**68 996 213**
Government grants	24	877 112	561 864
Operating expenses	25	(61 023 161)	(60 660 734)
Impairment loss reversed/(recognized) during the year	7	220 949	(2 952 877)
Other operating income	26	518 375	551 765
Total operating expenses		**(59 406 725)**	**(62 499 982)**
Operating profit		**10 017 176**	**6 496 231**
Finance income	27	239 125	116 633
Finance costs	27	(2 793 455)	(2 741 471)
Finance costs, net		**(2 554 330)**	**(2 624 838)**
Profit before income tax		**7 462 846**	**3 871 393**
Income tax expense	9	(1 636 624)	277 506
Profit for the year		**5 826 222**	**4 148 899**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits obligations		(175 585)	114 305
Income tax on remeasurement of post-employment benefit obligations		30 464	(17 388)
Other comprehensive income for the year		**(145 121)**	**96 917**
Total comprehensive income for the year		**5 681 101**	**4 245 816**
Profit is attributable to:			
Owners of the TGC-1		6 061 340	3 889 674
Non-controlling interests		(235 118)	259 225
Profit for the year		**5 826 222**	**4 148 899**
Total comprehensive income is attributable to:			
Owners of the TGC-1		5 920 817	3 981 524
Non-controlling interests		(239 716)	264 292
Total comprehensive income for the year		**5 681 101**	**4 245 816**
Earnings per ordinary share for profit attributable to owners of the TGC-1, basic and diluted (in Russian Roubles)	28	0.0016	0.0010

(in thousands of Russian Roubles)

	Attributable to owners of the Company								
	Share capital	Share premium	Merger reserve	Other reserves	Effect of emeasurements of post-employment benefits obligations	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2014	**38 543 414**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**37 001**	**34 575 950**	**88 774 083**	**8 340 797**	**97 114 880**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	**3 889 674**	**3 889 674**	**259 225**	**4 148 899**
Other comprehensive income									
Remeasurements of post-employment benefits obligations	-	-	-	-	108 256	-	**108 256**	6 049	**114 305**
Income tax on other comprehensive income	-	-	-	-	(16 406)	-	(16 406)	(982)	**(17 388)**
Total other comprehensive income	**-**	**-**	**-**	**-**	91 850	**-**	**91 850**	5 067	**96 917**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**91 850**	**3 889 674**	**3 981 524**	**264 292**	**4 245 816**
Transactions with owners									
Dividends	-	-	-	-	-	(643 629)	(643 629)	-	(643 629)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(643 629)**	**(643 629)**	**-**	**(643 629)**
Balance at 31 December 2014	**38 543 414**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**128 851**	**37 821 995**	**92 111 978**	**8 605 089**	**100 717 067**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	**6 061 340**	**6 061 340**	**(235 118)**	**5 826 222**
Other comprehensive income									
Remeasurements of post-employment benefits obligations	-	-	-	-	(170 052)	-	**(170 052)**	(5 533)	**(175 585)**
Income tax on other comprehensive income	-	-	-	-	29 529	-	**29 529**	**935**	**30 464**
Total other comprehensive income	**-**	**-**	**-**	**-**	(140 523)	**-**	**(140 523)**	**(4 598)**	**(145 121)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(140 523)**	**6 061 340**	**5 920 817**	**(239 716)**	**5 681 101**
Transactions with owners									
Dividends	-	-	-	-	-	(868 780)	**(868 780)**	-	(868 780)
Total transactions with owners	**-**	**-**	**-**	**-**	-	**(868 780)**	**(868 780)**	-	**(868 780)**
Balance at 31 December 2015	**38 543 414**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**(11 672)**	**43 014 555**	**97 164 015**	**8 365 373**	**105 529 388**

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from operating activities			
Profit before income tax		7 462 846	3 871 393
Adjustments for:			
Depreciation of property, plant and equipment	7	7 068 383	6 573 971
Amortisation of intangible assets	25	124 544	132 893
Amortisation of investment property	7	12 465	6 028
Impairment loss (reversed)/recognized during the year	7	(220 949)	2 952 877
Finance expense, net	27	2 554 330	2 624 838
Change in provision for impairment of accounts receivable	25	922 351	2 404 443
Gain on disposals of property, plant and equipment	25	(160 051)	(1 589 916)
Decrease of post-employment benefits obligations	19	58 482	(15 325)
Other non-cash items		43 749	2 255
Operating cash flows before working capital changes		**17 866 150**	**16 963 457**
Increase in trade and other receivables	10, 14	(2 317 671)	(2 166 328)
Decrease(increase) in inventories	15	9 812	(22 929)
Decrease in trade and other payables	20	(555 158)	(274 985)
Decrease/(increase) in other taxes payable	21	(366 665)	273 643
Cash generated from operations		**14 636 468**	**14 772 858**
Income taxes paid		(1 272 550)	(475 533)
Interest paid		(3 099 079)	(2 620 645)
Net cash from operating activities		**10 264 839**	**11 676 680**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(9 625 972)	(8 279 028)
Proceeds from sale of property, plant and equipment		65 448	2 585 527
Purchase of shares	12	(12 000)	
Purchase of intangible assets		(242 392)	(157 084)
Interest received		194 801	112 963
Net cash used in investing activities		**(9 620 115)**	**(5 737 622)**
Cash flows from financing activities			
Proceeds from borrowings		21 716 970	25 444 669
Repayments of borrowings		(22 049 519)	(28 749 223)
Dividends paid to the Company's shareholders		(868 780)	(643 629)
Net cash from financing activities		**(1 201 329)**	**(3 948 183)**
Net (decrease)/increase in cash and cash equivalents		**(556 605)**	**1 990 875**
Effect of exchange rate changes on cash and cash equivalents		(7 643)	31 519
Cash and cash equivalents at the beginning of the year		**2 265 399**	**243 005**
Cash and cash equivalents at the end of the year		**1 701 151**	**2 265 399**

(in thousands of Russian Roubles)

Note 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2015 for Joint-Stock Company (JSC) Territorial Generating Company № 1(here in after “TGC-1”, or the “Company”) and its subsidiaries (the “Group”).

The Company was incorporated and is domiciled in the Russian Federation. It is an open joint stock company and was established in accordance with Russian law.

“TGC-1” was established on 25 March 2005 as part of the restructuring of Russia’s electricity sector in accordance with Board of Directors Resolution No. 181 of RAO UES of Russia (here in after “RAO UES”) on 26 November 2004. The structure and founding principles of TGC-1 were adopted by the RAO UES Board of Directors on 23 April 2004 (Resolution No. 168).

The Group consists of the Company and the following subsidiaries. All Group companies are incorporated in the Russian Federation.

	% of ownership as at 31 December		
Subsidiary	**2015**	**2014**	**Immediate parent**
JSC Murmanskaya TPP	90.3423	90.3423	JSC TGC-1
OJSC St Petersburg Heating Grid	74.9997	74.9997	JSC TGC-1

As the operator of 54 power plants, the Group is principally engaged in electricity, capacity and heat generation. The Group’s generating assets are located in the North-West of Russia, in particular in St. Petersburg, the Leningrad region, the Murmansk region and in Karelia region.

The Company’s registered office is located at 6 Bronevaya Str., litera B, St. Petersburg, Russia, 198188.

Note 2. Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 30). During 2015 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2015:

- the CBRF exchange rate fluctuated between RR 49.1777 and RR 72.8827 per USD;
- the RTS stock exchange index ranged between 724.73 and 1 082.21;
- access to international financial markets to raise funding was limited for certain entities; and
- capital outflows increased.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2015:

- the CBRF exchange rate fluctuated between RR 72.9299 per USD and RR 83.5913 per USD;
- Russia's credit rating has not changed since December 2015: Moody’s – Ba1, Fitch Ratings - BBB-, Standard & Poor’s - BB+. However, all these rating agencies, except Moody’s, indicated a negative outlook, meaning further downgrades are possible.
- the RTS stock exchange index ranged between 628.41 and 839.23;
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates.

Note 2. Operating environment of the Group (continued)

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

Management has determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Thus, final impairment losses from financial assets could differ significantly from the current level of provisions. These standards also require recognition of impairment losses for property, plant and equipment that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are (Note 4).

Government relations and current regulation

As at 31 December 2015 the Group was controlled by the Gazprom Group (51.79% stake) via its subsidiary Gazprom Energoholding LLC (as at 31 December 2014 - 51.79% stake). The Group's other significant shareholder as at 31 December 2015 was Fortum Power and Heat Oy – 29.45% stake (as at 31 December 2014 - 25.66% stake). The Gazprom Group is controlled by the government of the Russian Federation, which was the Group's ultimate controlling party as at 31 December 2015 and 2014.

The Group's customer base also includes a large number of state-controlled entities. Furthermore, the government also controls a number of the Group's suppliers of fuel and other materials.

The Russian government directly affects the Group's operations through the Federal Tariff Service ("FTS"), which regulates its wholesale energy purchases, and by the St Petersburg Tariff Service, Leningrad Regional Tariff Service, Karelia Tariff Service and Murmansk Regional Tariff Service, which regulate its retail electricity, capacity and heat sales. The operations of all generating facilities are coordinated by OJSC "System Operator of Unified Energy System", a state-controlled company.

Tariffs which the Group may charge for electricity, capacity and heat sales are governed by regulations specific to the electricity, capacity and heat industry and that apply to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning the cost of service plus a margin.

As described in Note 30, the government's economic, social and other policies could have a material effect on Group operations.

Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. Management believes that the Group will have a sufficient liquidity to continue its operations in the foreseeable future.

As at 31 December 2015, the Group's current liabilities exceeded its current assets by RUB 715 917 thousand (as at 31 December 2014 the Group's current assets exceeded its current liabilities by RUB 2 998 307 thousand).

Management believes that the Group will have a sufficient liquidity to continue its operations in the foreseeable future. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Note 3. Summary of Significant Accounting Polices

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value. 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 (Refer to Note 5).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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, either at: (a) fair value, or (b) 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.

Note 3. Summary of Significant Accounting Polices (continued)

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.

Presentation currency

These consolidated financial statements are presented in thousands of Russian Roubles (RUB thousand), unless otherwise stated.

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).

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. 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.

Revenue is translated into each entity's functional currency using the official exchange rate of the CBRF at the respective date of transaction.

At 31 December 2015, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (USD) was USD 1 = RUB 72.8827 (31 December 2014: USD 1 = RUB 56.2584), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 79.6972 (31 December 2014: EUR 1 = RUB 68.3427).

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. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in 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 share of result 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 result 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.

Note 3. Summary of Significant Accounting Polices (continued)

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, 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 transferred to profit or loss.

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

Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions 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.

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

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

Note 3. Summary of Significant Accounting Polices (continued)

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.

The Group does not have the following categories of financial assets: financial assets at fair value through profit or loss, financial assets held to maturity and available-for-sale financial assets.

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.

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. The Group's loans and receivables comprise of 'trade and other receivables' and 'short-term investments' in the statement of financial position.

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's other financial liabilities comprise of 'trade and other payables' and 'borrowings' in the statement of financial position.

The Group does not have financial liabilities relate to category held for trading which also includes financial derivatives.

Initial recognition of financial instruments

Financial assets and liabilities 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 the trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss in finance costs.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(in thousands of Russian Roubles)

Note 3. Summary of Significant Accounting Polices (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, 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. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

At the time of the Group's establishment in 2005 property, plant and equipment were recorded at the carrying values determined in accordance with the IFRS at the date of their transfer to the Group by its predecessor entity RAO UES.

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

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

Costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is written off. Gains and losses arising from disposal of property, plant and equipment are included in profit or losses.

Social assets are not included in property, plant and equipment 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.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition, or for internally constructed assets, from the time the asset is completed and ready for use.

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

Type of facility	Useful lives, years
Production buildings	40-50
Hydrotechnical buildings	50-60
Generating equipment	20-30
Heating networks	25-35
Other	10-25

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

Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost and then it is recorded at amortised cost in accordance with useful lives. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment.

Note 3. Summary of Significant Accounting Polices (continued)

Earned rental income is recorded in profit or loss for the year within other operating income.

Gains or losses on disposal of investment property are calculated as proceeds less the carrying amount.

Operating lease

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 losses on a straight-line basis over the period of the lease. 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.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease liabilities

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

The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Intangible assets

The Group’s intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them into use. Amortisation is included in operating expenses (Note 25).Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software licences	2-15
Capitalised internal software development costs	2-15
Other licences	4-10

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Income taxes

Income taxes have been provided for in the consolidated 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 tax authorities on taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

The Group's uncertain tax positions are reassessed by management at every reporting date. 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.

Note 3. Summary of Significant Accounting Polices (continued)

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date 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 reporting date.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profits will be available against which the deductionscan be utilised. Deferred tax assets and liabilities are netted only within the individual entities of the Group.

Deferred tax is not provided for the undistributed earnings of the subsidiaries, as the Group controls the subsidiaries' dividend policy and requires profits to be reinvested. Only insignificant dividends are expected to be declared from future profits of the subsidiaries. Neither these future profits nor the related taxes are recognised in these consolidated financial statements.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis. The net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables

Accounts receivable are recorded inclusive of VAT. Trade and other receivables are carried at amortised cost using the effective interest method.

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 liquidity 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 is experiencing a significant financial difficulty as evidenced by its financial data that the Group has obtained;
- the counterparty is considering bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, has significantly decreased as a result of deteriorating market conditions.

Note 3. Summary of Significant Accounting Polices (continued)

Prepayments

Prepayments are carried at cost less any 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 more than 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 offset 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.

Cash and cash equivalents

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

Non-current assets classified as held for sale

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

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

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

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, investment properties and intangible assets are not depreciated.

Reclassified non-current financial instruments, deferred taxes and investment properties held at fair value are not subject to write down to the lower of their carrying amount and fair value less costs to sell. Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

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 in equity as a share premium.

Note 3. Summary of Significant Accounting Polices (continued)

Merger reserve

Any difference between the carrying value of the net assets merged into the Group as a result of a transaction under common control, and the nominal value of any shares issued is recorded in equity, as a merger reserve. Merger reserve is not distributable to shareholders and not taxable for income tax purposes.

Other reserves

Difference between the carrying value of the net assets merged into the Group in 2011 as a result of contribution in OJSC «St Petersburg Heating Grid's» share capital, and the nominal value of the shares issued is recorded in equity, as other reserves.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared and approved before or on the reporting date. Dividends are disclosed in subsequent events note when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Value added tax

Output value added tax (VAT) related to sales is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the 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 consolidated 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, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the compensation of income in relation to companies providing heating services per tariffs that don't cover expenses for the costs are deferred and recognised as deferred income in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Trade and other payables

Trade payables and accounts payable for capital construction are accrued when the counterparty performs its contractual obligations under the contract and are carried at amortised cost using the effective interest method.

Borrowings

Borrowings are carried at amortised cost using the effective interest method.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that that necessarily takes a substantial period of time to prepare for its intended use or sale (a qualifying asset) are capitalised as part of the cost of that asset.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditures on qualifying assets. Capitalised borrowing costs are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining acquiring a qualifying asset.

Note 3. Summary of Significant Accounting Polices (continued)

Borrowing costs (continued)

Where this occurs, the actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised. The commencement date for capitalisation is when the Group (i) incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases upon completion of all the activities necessary for preparing the qualifying asset for its intended use or sale.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing and amount. They are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Revenue recognition

Revenue is recognised on the delivery of electricity, capacity and heat. Revenues from sales of non-utility goods are recognised at the point of transfer of risks and rewards of ownership of the goods.

Correspondingly, when in accordance with the utilities market regulation in the Russian Federation, utilities companies are required to conclude transactions for the sale and repurchase of electricity (for bilateral contracts concluded or for electricity consumed in the production process) or when these transactions are performed for the purpose of the price risk hedging, these transactions are recorded on a net basis. Capacity sales are recognized when the capacity obligations have been fulfilled.

Revenues from sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue amounts are presented net of VAT. Revenues are measured at the fair value of the consideration received or receivable.

Offset

A portion of sales and purchases are settled by mutual cancellations or non-cash settlements. These transactions are generally in the form of set off of mutual balances.

Sales and purchases that are expected to be settled by mutual settlements or non-cash settlements are recognised based on management's estimate of the fair value to be received or given up in non-cash settlements.

Non-cash transactions have been excluded from the Consolidated Statement of Cash Flow. Investing and financing activities and the total of operating activities represent actual cash flows.

Pension and post-employment benefits

In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme defined by the Russian Federation on behalf of its employees. Mandatory contributions (social insurance contributions) to the governmental pension scheme are expensed when incurred.

The Group also operates defined benefit plans. For some of these plans the Group has a contract with a non-governmental pension fund, whilst the other plans are operated by the Group without engaging pension funds.

Cash paid by the Group to the solidarity account with the non-governmental pension fund is refundable to the Group until it is allocated to individual pensioners' bank accounts, and, on that basis, is accounted for by the Group as an asset (accounts receivable from the pension fund).

Note 3. Summary of Significant Accounting Polices (continued)

Pension and post-employment benefits (continued)

Defined benefit plans determine the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the reporting date. All defined benefit plans are considered to be fully unfunded.

The defined benefit obligations are calculated using the projected unit credit method. The present value of the 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 associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related post-employment benefits.

Remeasurement of defined benefit liability is the actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and recognized in other comprehensive income at a time.

The cost of services of past periods is a change in the present value of defined benefit obligation as a result of adjustments of plan that recognises in the period of changes in plan’s conditions.

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.

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Earnings per share

Earnings per share are determined by dividing the profit attributable to the Company’s ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group’s chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company’s Management Board. The primary activity of the Group is production of electric and heat power and capacity.

The Group generates its revenues from the generation of electricity, capacity and heat in the Russian Federation, so the Group holds assets in the same geographical area, i.e. the Russian Federation. The technology of electricity, capacity and heat production does not allow for the segregation of the electricity, capacity and heat segments (Note 32).

Note 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Provision for impairment of property, plant and equipment

At each reporting date the carrying amounts of the Group's property, plant and equipment and assets under construction are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such recoverable amount has declined below the carrying value, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 7.

Useful lives of property, plant and equipment

The estimation of the useful life based on an item of property, plant and equipment is a matter of management's judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2015 would be an increase of RUB 713 745 thousand or a decrease it by RUB 631 797 thousand (for the year ended 31 December 2014: increase by RUB 694 449 thousand or decrease by RUB 586 772 thousand).

Recoverability of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectability of specific customer accounts deteriorated compared to previous period estimates. If there has been a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (Note 31).

Pension obligation

The principal actuarial assumptions used to calculate the defined benefit obligation as at 31 December 2015 are listed in Note 19.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are future heat tariffs and heat output.

If the actual results differ from the management expectations the recognized deferred tax asset will be written-off in full.

Note 5. Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2015:

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).

The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amended standard did not have a material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2010-2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below).

The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a "vesting condition" and to define separately "performance condition" and "service condition".

The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. The improvements did not have a material impact on the Group's consolidated financial statements.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

The amendments did not have a material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2011-2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive.

The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The amendments did not have a material impact on the Group's consolidated financial statements.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

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. The following standards were adopted in Russia:

IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).

IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

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).

This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its financial statements.

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).

In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment is not expected to have any impact on the Group's financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group is currently assessing the impact of the amendments on its separate financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2012-2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).

The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

Annual Improvements to IFRSs 2012-2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016) (continued).

The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017).

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 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.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018) (continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition.
- In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

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

Note 6. Balances and Transactions with Related Parties

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

Related parties include shareholders that have control or significant influence over the Company, and key management personnel, as well as companies that are controlled by the State or Gazprom Group.

As at 31 December 2015 and 31 December 2014 the Russian Government was the ultimate controlling party of the Group (Note 1), hence significant transactions with other state-controlled entities were disclosed as related party transactions in accordance with IAS 24 requirements.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in the years ended at 31 December 2015 and 2014, and had significant outstanding balances as at 31 December 2015 and 31 December 2014 are detailed below.

(in thousands of Russian Roubles)

Note 6. Adoption of New or Revised Standards and Interpretations (continued)

PJSC Gazprom and its subsidiaries (under common control of the State)

Transactions with PJSC Gazprom and its subsidiaries were as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Revenue		
Sales of electricity	661 944	730 076
Sales of heat	254 820	151 510
Other	289 535	124 137
Total sales	**1 206 299**	**1 005 723**
Purchases		
Purchases of fuel	(24 016 501)	(25 111 321)
Purchases of property, plant and equipment, construction in progress, intangible assets	(3 051 811)	(227 185)
Purchases of electricity	(72 351)	(55 628)
Interest expense	(1 149 111)	(1 113 748)
Including interest expense of Gazprom Energoholding LLC	*(136 170)*	*(206 293)*
Interest income	51 816	-
Other	(1 192 209)	(472 095)
Total purchases	**(29 430 167)**	**(26 979 977)**

Sales and purchases are generally entered into on an arm's length basis. CJSC Gazprom Mezhregiongaz is a major supplier of fuel (gas) for the Group.

Balances with Gazprom group subsidiaries at the end of the period were as follows:

	31 December 2015	31 December 2014
Borrowings (loans and bonds)	11 133 899	14 204 881
Including loan of Gazprom Energoholding LLC	-	*2 744 564*
Long-term receivables	193 204	-
Long-term advances to suppliers	818 798	-
Advances under capital construction, included in property, plant and equipment	70 570	-
Trade and other receivables	440 804	737 696
Long-term payables	139 911	151 077
Trade and other payables	1 000 596	908 602
Cash and cash equivalents	650 716	3 845

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for natural gas and heat are based on tariffs set by FTS, prices for electricity and capacity based on tariffs set by FTS and also based on competitive take-off on the wholesale electricity (capacity) market. Bank loans are obtained at market rates. Taxes are charged and paid under the Russian tax law.

(in thousands of Russian Roubles)

Note 6. Balances and Transactions with Related Parties (continued)

State-controlled entities (continued)

The Group had the following significant transactions with State-controlled entities:

	Year ended 31 December 2015	Year ended 31 December 2014
Sales		
Sales of heating	13 697 846	13 492 646
Sales of electricity	6 265 264	8 240 082
Other sales	37 328	46 152
Total sales	**20 000 438**	**21 778 880**
Expenses		
Water usage expenses	(2 338 413)	(2 328 610)
Heat distribution	(1 461 774)	(1 246 637)
Security services	(387 289)	(388 987)
Operating lease	(127 322)	(141 787)
Transportation expenses	(10 076)	(7 629)
Electricity purchases	(102 769)	(37 101)
Interest expenses	(215 145)	(395 587)
Interest income	1 817	4 202
Other operating expenses	(829 985)	(806 651)
Total expenses	**(5 470 956)**	**(5 348 787)**

Other operating expenses are mainly presented by expenses under the agreement with the System Operator of United Energy System for the year ended 31 December 2015 in amount of RUB 794 927 thousand (for the year ended 31 December 2014 – RUB 778 721 thousand).

The Group had the following significant balances with State-controlled entities:

	31 December 2015	31 December 2014
Trade and other receivables	7 907 849	8 340 177
Borrowings	4 528 251	3 738 060
Trade and other payables	630 144	566 217
Cash and cash equivalents	536 421	254 799

Movements in impairment provision for receivables in respect to State-controlled entities are as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Provision for impairment as at 1 January	**2 998 911**	**1 115 393**
Impairment loss recognised during the period	586 099	1 974 744
Impairment loss reversed during the period	(1 524 252)	(83 375)
Consumed during the period	(322 081)	(7 851)
Provision for impairment as at 31 December	**1 738 677**	**2 998 911**

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with OJSC Centre of Financial Settlements (CFS). CFS's current financial settlement system of CFS does not provide the final counterparty with automated information about transactions and settlement balances with end consumers. Government-related entities, Gazprom Group and its subsidiaries may also act as counterparties.

(in thousands of Russian Roubles)

Note 6. Balances and Transactions with Related Parties (continued)

The Group had the following significant transactions with CFS:

	Year ended 31 December 2015	Year ended 31 December 2014
Sales of electricity	24 641 662	22 786 973
Electricity purchases	(4 509 639)	(4 735 449)

The Group had the following significant balances with CFS:

	31 December 2015	31 December 2014
Trade and other receivables	1 020 156	905 352
Trade and other payables	191 832	277 588

Transactions with other related parties

Other related parties are mainly represented by the Company's shareholder with a significant influence (Fortum Power and Heat OY) and associates (LLC TGC Service and JSC Hibinskaya Heating Company).

The Group had the following significant income/expenses and balances with other related parties:

	Year ended 31 December 2015	Year ended 31 December 2014
Sales of electricity (Fortum Power and Heat OY)	390 208	93 342
Sales of heat (LLC TGC Service and JSC Hibinskaya Heating Company)	23 413	15 520
Other income (LLC TGC Service and JSC Hibinskaya Heating Company)	11 355	8 969
Capital construction expense (LLC TGC Service)	(352 937)	(422 945)
Repairs and maintenance (LLC TGC Service)	(928 089)	(833 295)
Heat distribution (JSC Hibinskaya Heating Company)	(481 391)	(504 963)
Other expenses (LLC TGC Service)	(79 573)	(43 949)

The Group had the following significant balances with other related parties:

	31 December 2015	31 December 2014
Trade and other receivables (LLC TGC Service)	231 590	191 186
Trade and other receivables (Fortum Power and Heat OY)	-	93 342
Trade and other receivables (JSC Hibinskaya Heating Company)	7 318	3 661
Advances under capital construction, included in property, plant and equipment (LLC TGC Service)	1 521	-
Accounts payable (LLC TGC Service)	(326 305)	(446 353)
Accounts payable (JSC Hibinskaya Heating Company)	(118 938)	(60 491)

Transactions and balances with the non-state pension fund of the electrical energy industry and the non-state pension fund Gazfond are disclosed in Note 19.

(in thousands of Russian Roubles)

Note 6. Balances and Transactions with Related Parties (continued)

Transactions with other related parties (continued)

As at 31 December 2015, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment connected to related parties in the amount of RUB 9 390 695 thousand (31 December 2014: 117 502 RUB thousand). Sales commitments are disclosed in Note 29.

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

	Year ended 31 December 2015	Year ended 31 December 2014
OJSC Gazprom and its subsidiaries	8 837 754	91 122
State-controlled entities	9 410	1 074
Other related parties	543 531	25 306
Total	**9 390 695**	**117 502**

Transactions with the key management personnel

Key management personnel includes members of the Board of Directors, General Director, members of Management Board.

Key management compensation in types is presented below:

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries	87 971	90 535
Short-term bonuses	71 130	70 545
Benefits to the Board of Directors	23 897	26 156
Termination benefits	2 489	4 475
Total	**185 487**	**191 711**

Main compensation for key management personnel of the Group generally is short-term excluding future payments under pension plans with defined benefits.

Pension benefits for key management of the Group are provided on the same terms as for the rest of employees.

The Group had the following balances with key management personnel:

	31 December 2015	31 December 2014
Payables to key management	3 452	3 554
Total	**3 452**	**3 554**

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment

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

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Electricity transmission equipment	Other	Construction in progress	Total
Balance as at 31 December 2014	**25 782 995**	**15 555 897**	**51 100 007**	**46 252 383**	**16 183 089**	**30 433 363**	**13 126 656**	**198 434 390**
Effect of reclassifications	(1 809)	95 148	22 871	(161 054)	90 756	(45 912)	-	-
Balance as at 31 December 2014	**25 781 186**	**15 651 045**	**51 122 878**	**46 091 329**	**16 273 845**	**30 387 451**	**13 126 656**	**198 434 390**
Additions	19 991	-	-	427 632	60 544	182 336	10 241 454	10 931 957
Transfers	601 935	160 668	966 720	1 102 529	662 091	1 755 503	(5 249 446)	-
Disposals	(52 056)	-	(80 891)	(606 850)	(10 670)	(222 144)	(132 968)	(1 105 579)
Reclassification to non-current assets held for sale	(131 293)	(351)	(41 648)	(310 320)	(22 176)	(66 363)	-	(572 151)
Balance as at 31 December 2015	**26 219 763**	**15 811 362**	**51 967 059**	**46 704 320**	**16 963 634**	**32 036 783**	**17 985 696**	**207 688 617**
Accumulated depreciation (including impairment)								
Balance as at 31 December 2014	**(9 481 650)**	**(8 332 407)**	**(17 594 271)**	**(19 368 645)**	**(3 596 620)**	**(11 401 171)**	**(183 063)**	**(69 957 827)**
Effect of reclassifications	10 645	(55 612)	(3 601)	100 041	(32 431)	(19 042)	-	-
Balance as at 31 December 2014	**(9 471 005)**	**(8 388 019)**	**(17 597 872)**	**(19 268 604)**	**(3 629 051)**	**(11 420 213)**	**(183 063)**	**(69 957 827)**
Charge for the year	(585 799)	(234 242)	(2 207 014)	(1 478 697)	(615 986)	(1 946 645)	-	(7 068 383)
Disposals	7 547	-	80 878	484 320	2 484	132 292	-	707 521
Reclassification to non-current assets held for sale	115 024	351	36 166	222 944	21 375	46 428	-	442 288
Impairment loss recognised during the year	965 671	585 737	238 767	(2 123 356)	225 032	330 246	(1 148)	220 949
Balance as at 31 December 2015	**(8 968 562)**	**(8 036 173)**	**(19 449 075)**	**(22 163 393)**	**(3 996 146)**	**(12 857 892)**	**(184 211)**	**(75 655 452)**
Net book value as at 31 December 2014 (including effect of reclassification)	**16 310 181**	**7 263 026**	**33 525 006**	**26 822 725**	**12 644 794**	**18 967 238**	**12 943 593**	**128 476 563**
Net book value as at 31 December 2015	**17 251 201**	**7 775 189**	**32 517 984**	**24 540 927**	**12 967 488**	**19 178 891**	**17 801 485**	**132 033 165**

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment (continued)

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Electricity transmission equipment	Other	Construction in progress	Total
Balance as at 31 December 2013	**23 174 563**	**16 718 287**	**56 139 009**	**44 171 440**	**11 559 310**	**25 934 598**	**14 451 519**	**192 148 726**
Effect of reclassifications	1 828 923	(318 107)	(6 199 275)	(301 372)	2 451 955	2 537 876	-	-
Balance as at 31 December 2013	**25 003 486**	**16 400 180**	**49 939 734**	**43 870 068**	**14 011 265**	**28 472 474**	**14 451 519**	**192 148 726**
Additions	1 650	-	29 402	436 449	962	128 479	8 450 450	9 047 394
Transfers	998 420	32 204	1 388 660	2 302 210	2 597 207	2 199 308	(9 518 007)	-
Disposals	(195 573)	(876 487)	(257 789)	(356 344)	(281 881)	(357 371)	(257 306)	(2 582 751)
Reclassification to non-current assets held for sale	(24 988)	-	-	-	(144 464)	(9 527)	-	(178 979)
Balance as at 31 December 2014	**25 782 995**	**15 555 897**	**51 100 007**	**46 252 383**	**16 183 089**	**30 433 363**	**13 126 656**	**198 434 390**
Accumulated depreciation (including impairment)								
Balance as at 31 December 2013	**(7 314 707)**	**(7 889 372)**	**(16 265 797)**	**(17 955 664)**	**(2 932 078)**	**(9 419 803)**	**(183 063)**	**(61 960 484)**
Effect of reclassifications	(500 785)	(1 851)	627 795	(33 798)	(168 690)	77 329	-	-
Balance as at 31 December 2013	**(7 815 492)**	**(7 891 223)**	**(15 638 002)**	**(17 989 462)**	**(3 100 768)**	**(9 342 474)**	**(183 063)**	**(61 960 484)**
Charge for the year	(630 655)	(256 417)	(1 862 267)	(1 432 133)	(552 179)	(1 840 320)	-	(6 573 971)
Disposals	100 852	413 287	167 771	272 991	157 349	271 776	-	1 384 026
Reclassification to non-current assets held for sale	24 055	-	-	-	117 786	3 638	-	145 479
Impairment loss recognised during the year	(1 160 410)	(598 054)	(261 773)	(220 041)	(218 808)	(493 791)	-	(2 952 877)
Balance as at 31 December 2014	**(9 481 650)**	**(8 332 407)**	**(17 594 271)**	**(19 368 645)**	**(3 596 620)**	**(11 401 171)**	**(183 063)**	**(69 957 827)**
Net book value as at 31 December 2013 (including effect of reclassification)	**17 187 994**	**8 508 957**	**34 301 732**	**25 880 606**	**10 910 497**	**19 130 000**	**14 268 456**	**130 188 242**
Net book value as at 31 December 2014	**16 301 345**	**7 223 490**	**33 505 736**	**26 883 738**	**12 586 469**	**19 032 192**	**12 943 593**	**128 476 563**

Note 7. Property, Plant and Equipment (continued)

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been made available for use in production, including generating stations under construction.

Other property, plant and equipment include electricity transmission equipment, motor vehicles, computer equipment, office fixtures and other equipment.

As at 31 December 2015 the advances given to contractors, which amounted to RUB 371 419 thousand, net of VAT (as at 31 December 2014: RUB 548 792 thousand), are recognised within the construction in progress balance. The respective input VAT is recognized within accounts receivable and prepayments (Note 14).

As at 31 December 2015 and 2014 The Group had no property, plant and equipment pledged as collateral according to loan agreements.

The total amount of capitalised interests that were calculated using 10.32% capitalization rate for the year ended 31 December 2015 is RUB 595 468 thousand (8.8% capitalization rate for the year ended 31 December 2014: RUB 523 299 thousand). The payment of capitalised interests is recorded in Consolidated Statement of Cash Flow in respect of operating activities.

Other property, plant and equipment include assets held under finance leases with a carrying value of RUB 44 134 thousand (as at 31 December 2014: RUB 59 979 thousand).

Non-cash additions to property, plant and equipment equal to RUB 680 592 thousand (in 2014 – RUB 360 115 thousand). Non-cash additions to property, plant and equipment in 2015 mostly relate to mutual settlements and property, plant and equipment, received in the network of compensation agreements (in 2014 mostly relate to mutual settlements and property, plant and equipment, received in the network of compensation agreements).

In 2015 residual value of disposed property, plant and equipment was RUB 398 058 thousand.

Revenue from sale of property, plant and equipment was RUB 125 559 thousand, income from materials received from written off property, plant and equipment was RUB 67 772 thousand, income from donated property, plant and equipment was RUB 237 591 thousand. The amount of property, plant and equipment, reclassified to other balance positions was RUB 127 187 thousand.

Total profit from disposal of property, plant and equipment in 2015 is recorded in operating expenses in the amount of RUB 160 051 thousand (Note 25).

In 2014 residual value of disposed property, plant and equipment was RUB 1 198 725 thousand.

This amount includes the residual value of property, plant and equipment of Ondskaya HPS of Karelsky branch of RUB 681 696 thousand sold to the third party at 21 October 2014. Revenue from sale of property, plant and equipment was RUB 2 100 000 thousand. So profit from this transaction was 1 418 304 thousand.

Residual value of other disposed property, plant and equipment (sold and written off) was RUB 517 029 thousand. Revenue from sale of property, plant and equipment was RUB 599 694 thousand, income from materials received from written off property, plant and equipment was RUB 45 289 thousand. Profit from disposal of other property, plant and equipment was RUB 171 612 thousand.

Total profit from disposal of property, plant and equipment in 2014 is recorded in operating expenses in the amount of RUB 1 589 916 thousand (Note 25).

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment (continued)

For the purposes of amended presentation of property, plant and equipment as at 31 December 2014 and as at 31 December 2015, new group as «Electricity transmission equipment» was separated from the group «Other».

Impairment

Management determined whether there was any indication of impairment of the Group's property, plant and equipment as at 31 December 2015.

The determination of indication of impairment was performed for six cash-generating units: the Thermal Power Plants (TPP) of the Nevsky branch, the Hydro-electric Power Stations (HPS) of the Nevsky branch, St Petersburg Heating Grid, Kolsky and Karelsky branches and the Murmanskaya TPP.

The cash generating units are the same as the reportable segment to which the assets belong (Note 32).

The key indicator of impairment was the discount rate increase.

As a result of the impairment test, based on the value in use, impairment loss was recognised for St Petersburg Heating Grid (reportable segment - St Petersburg Heating Grid) in the amount of RUB 2 367 278 thousand, and impairment loss was reversed for Karelsky branch (reportable segment - Karelsky branch) in the amount of RUB 2 921 807 thousand. In addition, as at 31 December 2015 the impairment loss was recognised for property, plant and equipment, reclassified to assets held for sale in the amount of RUB 333 580 thousand.

The following key parameters were used in forecasting the further cash flows: forecasts of electricity and capacity prices and heat tariffs, cost of fuel and planned production volumes for forecasting period.

The indexes used by management in forecasting cash flows were based on the Parameters of Forecasting Social and Economic Development of the Russian Federation for 2016 and for planning periods 2017 and 2018 on 26 October 2015 and on the Parameters of Long-term Forecasting Social and Economic Development of the Russian Federation until 2030 on 8 November 2013.

The impairment test as at 31 December 2015 based on Gordon model with five years forecast period and terminal cost with 4 percent growth rate for terminal period.

Management made the following key assumptions when estimating the value in use of property, plant and equipment and determining the levels of impairment provisions as at 31 December 2015: the average remaining useful lives have been estimated by management for separate cash generating units on the basis of a report by a consortium of independent appraisers as at 31 December 2006 and taking into account the latest capital investment programme of the Group in respect of information about investments, required for maintaining useful lives, confirming the relevance of the report’s conclusions above, and were as follows:

Name of cash generating unit	Average remaining useful lives, years
Kolsky branch	22
Karelsky branch	20
Nevsky branch HPS	23
Nevsky branch TPP	25
St Petersburg Heating Grid	18
Murmanskaya TPP	10

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment (continued)

However, the calculation of the recoverable amounts from cash-generating units is highly sensitive to the pre-tax discount rate and change of forecasted tariffs. Pre-tax discount rate (based on weighted average cost of capital) was 18.93% in 2016-2017, since 2018 - 16.12%.

If the pre-tax discount rate was 1 percent higher in the forecasted period, there would be total impairment loss of RUB 4 720 035 thousand recognised as at 31 December 2015. If the electricity and heat tariffs were 5 percent lower in the forecasted period, there would be total impairment loss of RUB 7 103 058 thousand recognised as at 31 December 2015. If decrease remaining useful lives of property, plant and equipment for 5 years, change in recoverable amounts caused the impairment provision of RUB 7 092 694 thousand recognized as at 31 December 2015.

As at 31 December 2014 as a result of the impairment test impairment loss was recognised for Karelsky branch (reportable segment - Karelsky branch) in the amount of RUB 2 952 877 thousand.

Note 8. Investments in Associates

LLC «TGC Service» and «JSC Hibinskaya Heating Company» are the associates for the Group. LLC «TGC Service» specializes in repairing of the capital and service equipment of the power enterprises and also provides maintenance, support, diagnostics and technical reequipment of power industry objects. JSC Hibinskaya Heating Company» specializes in production, transportation and sales of heat energy.

Information about Group's investments in associates is presented below:

	31 December 2015	31 December 2014
Investments in LLC TGC Service	20 812	13 752
Investments in JSC HHC	374 732	413 385
Total investments	**395 544**	**427 137**

As at 31 December 2015 and 31 December 2014 the ownership interest in JSC HHC was 50%. Management of the Group believes that there is a significant influence over JSC HHC as taking into account its current Board of Directors composition there is no joint control over the entity. Therefore, the investment in JSC HHC was accounted as investment in associate.

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

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	% interest held	Country of incorporation
LLC TGC Service	1 303 451	1 364 004	1 966 781	27 156	26%	Russia
JSC HHC	2 549 439	1 799 974	545 437	(77 306)	50%	Russia
Total	**3 852 890**	**3 163 978**	**2 512 218**	**(47 757)**		

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

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	% interest held	Country of incorporation
LLC TGC Service	1 591 978	1 521 111	1 801 393	54 346	26%	Russia
JSC HHC	2 766 623	1 939 852	559 538	(37 475)	50%	Russia
Total	**4 358 601**	**3 460 963**	**2 360 931**	**16 871**		

(in thousands of Russian Roubles)

Note 8. Investments in Associates (continued)

Management could not reliably estimate the fair value of the Group's investment in shares of associates. TGC Service is a Limited Liability Company, so it doesn't issue shares. Shares of JSC Hibinskaya Heating Company are not quoted and recent trade prices are not publicly accessible. The investment is carried at acquisition cost including Group's equity in profit or loss and other comprehensive income of associates.

Note 9. Income Taxes

Income tax expense comprises the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Current income tax charge	(1 175 645)	(399 742)
Deferred income tax charge	(460 979)	(525 707)
Effect of change in income tax rate, recorded in profit and losses	-	1 202 955
Total Income/(expense) tax charge, recorded in profit and losses	**(1 636 624)**	**277 506**
Movement during the year, recorded in other comprehensive income	30 464	(15 812)
Effect of change in income tax rate, recorded in other comprehensive income	-	(1 576)
Total Income/(expense) tax charge, recorded in other comprehensive income	**30 464**	**(17 388)**
Total income tax charge	**(1 606 160)**	**260 118**

The Group's companies applied the following tax rates in 2014: JSC "TGC-1" - 17.32%, PJSC "Murmanskaya TPP" - 20%, OJSC "St Petersburg Heating Grid" - 15.55% (2014: JSC "TGC-1" - 17.2%, PJSC "Murmanskaya TPP" - 20%, OJSC "St Petersburg Heating Grid" - 15.55%).

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

	Year ended 31 December 2015	Year ended 31 December 2014
Profit before tax	**7 462 846**	**3 871 393**
Theoretical tax charge at the statutory tax rate of 20%	(1 492 569)	(774 279)
Tax effects of items which are non-deductible for income tax purposes	(370 366)	(399 742)
Effect of change in income tax rate	-	1 202 955
Effect of tax benefit applying	226 311	248 572
Total Income/(expense) tax charge, recorded in profit and losses	**(1 636 624)**	**277 506**
Other comprehensive income	**(175 585)**	**114 305**
Theoretical tax charge at the statutory tax rate of 20%	35 117	(22 861)
Effect of change in income tax rate	-	(1 576)
Effect of tax benefit applying	(4 653)	7 049
Total Income/(expense) tax charge, recorded in other comprehensive income	**30 464**	**(17 388)**
Total income tax charge	**(1 606 160)**	**260 118**

(in thousands of Russian Roubles)

Note 9. Income Taxes (continued)

Deferred income tax assets and liabilities

Differences between IFRS and Russian statutory tax calculation cause temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred income tax assets and liabilities were measured at the following tax rates as at 31 December 2015: JSC «TGC-1» - 17.32%, PJSC «Murmanskaya TPP» - 20%, OJSC «St Petersburg Heating Grid» - 15.55% (as at 31 December 2014: JSC «TGC-1» - 17.2%, PJSC «Murmanskaya TPP» - 20%, OJSC «St Petersburg Heating Grid» - 15.55%). Management considers the rates to be applied to the period when the assets are realised and liabilities are settled.

Since 2014, JSC «TGC-1» applies income tax exemption in accordance to law of Saint-Petersburg from 14.07.1995 № 81-11. So, deferred income tax assets and liabilities at 31 December 2014 in respect of JSC «TGC-1» were revaluated applying effective income tax rate 17.2%.

Since 2013, OJSC «St Petersburg Heating Grid» applies income tax exemption in accordance to law of Saint-Petersburg from 14.07.1995 № 81-11. So, deferred income tax assets and liabilities at 31 December 2013 in respect of OJSC «St Petersburg Heating Grid» were revaluated applying effective income tax rate 15.55%.

Effect of the revaluation is presented in the tables below.

In the context of the Group’s current structure, the tax losses and current tax assets of different consolidated entities may not be offset against the current tax liabilities and taxable profits of other consolidated entities and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only when they relate to the same taxable entity.

Deferred income tax liabilities

	31 December 2015	Recognised in profit or losses	Movement during the year, recorded in other comprehensive income	31 December 2014
Property, plant and equipment	(10 574 421)	(539 338)	-	(10 035 083)
Investments	-	-	-	-
Trade and other receivables	(446 550)	(64 357)	-	(382 193)
Trade and other payables	28 725	(7 432)	-	36 157
Pension liabilities	150 766	9 311	26 850	114 605
Tax loss carried forward	-	-	-	-
Other	16 234	7 944	-	8 290
Total deferred income tax liability	**(10 825 246)**	**(593 872)**	**26 850**	**(10 258 224)**

(in thousands of Russian Roubles)

Note 9. Income Taxes (continued)

Deferred income tax assets and liabilities (continued)

Deferred income tax liabilities	31 December 2014	Recognised in profit or losses	Effect of change in income tax rate, recorded in other compre-hensive income	Effect of change in income tax rate, recorded in profit and losses	Movement during the year, recorded in other compre-hensive income	31 December 2013
Property, plant and equipment	(10 035 083)	(283 276)	-	1 195 483	-	(10 947 290)
Investments	-	(261)	-	(42)	-	303
Trade and other receivables	(382 193)	282 895	-	108 200	-	(773 288)
Trade and other payables	36 157	(7 391)	-	(6 415)	-	49 963
Pension liabilities	114 605	(5 020)	(1 576)	(17 984)	(14 421)	153 606
Tax loss carried forward	-	(448 313)	-	(72 830)	-	521 143
Other	8 290	(911)	-	(3 457)	-	12 658
Total deferred income tax liability	**(10 258 224)**	**(462 277)**	**(1 576)**	**1 202 955**	**(14 421)**	**(10 982 905)**

Deferred income tax assets	31 December 2015	Recognised in profit or losses	Recognised in other compre-hensive income	31 December 2014
Property, plant and equipment	6 587	9 220	-	(2 633)
Tax loss carried forward	-	(73 236)	-	73 236
Trade and other receivables	411 579	197 427	-	214 152
Trade and other payables	5 534	(1 453)	-	6 987
Pension liabilities	15 139	950	3 614	10 575
Other	-	(15)	-	15
Total deferred income tax assets	**438 839**	**132 893**	**3 614**	**302 332**

	31 December 2014	Recognised in profit or losses	Recognised in other compre-hensive income	31 December 2013
Property, plant and equipment	(2 633)	411	-	(3 044)
Tax loss carried forward	73 236	(88 206)	-	161 442
Trade and other receivables	214 152	25 693	-	188 459
Trade and other payables	6 987	10	-	6 977
Pension liabilities	10 575	(1 325)	(1 391)	13 291
Other	15	(13)	-	28
Total deferred income tax assets	**302 332**	**(63 430)**	**(1 391)**	**367 153**

(in thousands of Russian Roubles)

Note 10. Other Non-Current Assets

	31 December 2015	31 December 2014
Long-term receivables, net of provision for impairment of RUB 0 thousand (31 December 2014: RUB 70 143 thousand) (non-interest bearing)	454 274	369 044
Loan issued	818 799	-
Total other non-current assets	**1 273 073**	**369 044**

Note 11. Cash and Cash Equivalents

	31 December 2015	31 December 2014
Cash in bank and in hand in RUB	1 184 089	2 031 544
Foreign currency accounts in EUR	477 062	198 855
Deposit in RUB	40 000	35 000
Total cash and cash equivalents	**1 701 151**	**2 265 399**

Note 12. Short-term Investments

	31 December 2015	31 December 2014
Investments in Dubrovskaya LLC	12 000	-
Loan issued	30 073	30 073
Total short-term investments	**42 073**	**30 073**

Note 13. Non-current Assets Held for Sale

As at 31 December 2015 the property, plant and equipment with a total net book value amounting to RUB 215 846 thousand were classified as assets held for sale (31 December 2014: RUB 86 651 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

31 December 2015	Sale	Classification as assets held for sale	31 December 2014
215 846	(668)	129 863	86 651

31 December 2014	Sale	Classification as assets held for sale	31 December 2013
86 651	(5 174)	33 500	58 325

Note 14. Trade and other receivables

	31 December 2015	31 December 2014
Trade receivables, net of provision for impairment of RUB 5 247 430 (31 December 2014: RUB 4 866 086 thousand)	14 110 257	13 626 794
Other receivables, net of provision for impairment of RUB 73 940 (31 December 2014: RUB 18 308 thousand)	431 305	326 972
Total financial receivables	**14 541 562**	**13 953 766**
Value-added tax receivables	140 006	217 454
Advances to suppliers	337 838	830 148
Other taxes receivable	6 457	8 518
Total trade and other receivables	**15 025 863**	**15 009 886**

(in thousands of Russian Roubles)

Note 14. Trade and other receivables (continued)

Total financial receivables by customer type are presented in the table below:

	31 December 2015	31 December 2014
Ultimate domestic customers	10 828 134	10 104 126
Wholesale customers	2 685 768	2 799 708
Free market	1 020 156	905 352
Export customers	7 504	144 580
Total	**14 541 562**	**13 953 766**

Total financial receivables on a contract basis as at the reporting date are presented in the table below:

	Fully performing	Past due but not impaired	Impaired
Total financial receivables as at 31 December 2015	9 188 121	5 807 715	5 321 370
Total financial receivables as at 31 December 2014	8 451 279	5 871 533	4 954 537

Fully performing trade receivables involve a number of independent customers who have no recent history of default. Individually insignificant end-user customers make up the majority of performing trade receivables; therefore the credit risk is widely spread.

Past due but not impaired financial receivables have the following ageing structure:

	31 December 2015	31 December 2014
Up to 45 days	3 610 331	3 154 827
From 45 to 90 days	316 393	463 570
More than 90 days	1 880 991	2 253 136
Total	**5 807 715**	**5 871 533**

Impaired financial receivables represent overdue accounts receivables from customers which are not expected to be settled. Reversal relates to previously impaired financial receivables which have been collected in current year or expected to be collected in 2016.

Movements in impairment provision for financial receivables are as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Provision for impairment as at 1 January	**4 954 537**	**2 774 758**
Impairment loss recognised during the period	2 497 491	2 476 320
Impairment loss reversed during the period	(1 630 931)	(97 007)
Consumed	(499 727)	(199 534)
Provision for impairment as at 31 December	**5 321 370**	**4 954 537**
Account receivable directly written-off to profit and loss	55 791	25 131

Increase of impairment provision for financial receivables in 2015 caused by deterioration of collectability of ultimate domestic customers and wholesale customers, including the negative trends in economic situation in Russian Federation (Note 2).

(in thousands of Russian Roubles)

Note 15. Inventories

	31 December 2015	31 December 2014
Fuel	1 974 000	2 000 746
Spare parts	161 458	176 145
Raw materials and other supplies	501 536	469 915
Total inventories	**2 636 994**	**2 646 806**

Note 16. Share capital

Share capital

The Group's share capital as at 31 December 2015 and as at 31 December 2014 was RUB 38 543 414 thousand comprising 3 854 341 416 571 ordinary shares with a par value of RUB 0.01. All shares authorised are issued and fully paid.

Dividends

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared under Russian Accounting Rules. The Company's statutory accounting reports form the basis for profit distribution and other appropriations. Russian legislation identifies net profit as the basis for distribution.

For 2015, the current year statutory net profit for the Company, as reported in the published annual statutory reporting forms, was RUB 2 676 053 thousand (2014: RUB 3 475 121 thousand) and the closing balance of the accumulated profit including the current year statutory net profit totaled RUB 11 388 475 thousand (31 December 2014: RUB 9 745 841 thousand). However, this legislation and other statutory laws and regulations are open to different legal interpretations and, accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

At the General Shareholders' Meeting held on 22 June 2015, the decision was made to pay a total of RUB 868 780 thousand in annual dividends for 2014 (2014: RUB 643 629 thousand for 2013).

(in thousands of Russian Roubles)

Note 17. Long-term Borrowings

	31 December 2015	31 December 2014
Bank borrowings and bonds issued	16 807 500	21 260 080
Total long-term borrowings	**16 807 500**	**21 260 080**

	Currency	Contractual interest rate	Maturity	31 December 2015		31 December 2014	
				Carriyng amounts	Fair values	Carriyng amounts	Fair values
Long-term bonds (03)	RUB	12.9%	2021	2 006 360	2 006 360	2 003 500	1 642 388
Long-term bonds (04)	RUB	12.9%	2022	2 091 180	2 091 180	2 056 120	1 626 207
Gazprom	RUB	8%	2016	10 000 000	9 402 677	10 000 000	9 125 711
Gazprom Energoholding	RUB	10.5-12.5%	2015	-	-	2 000 000	1 987 361
Bank Rossiya		13-13.25%	2017	5 800 000	5 791 990	5 000 000	4 881 875
Sberbank RF	RUB	11.4%	2015-2016	310 636	308 124	2 473 632	2 406 420
NORDIC Investment Bank	RUB	EURIBOR + 3%	2019	1 480 980	1 480 980	1 588 011	1 588 011
ROSBANK	RUB	13.3-13.4%	2017	1 000 821	995 906	1 345 253	1 345 253
ROSBANK	RUB	MosPrime 1M +1,7%	2017	503 685	503 685	-	-
VTB	RUB	11.95-14.9%	2016-2018	3 036 725	2 994 947	897 785	853 645
VBRR	RUB	12.5-15%	2017	900 000	892 478	186 789	182 523
Nordic Environment Finance Corporation	EUR	EURIBOR + 2%	2015	-	-	17 199	17 199
Bank FK Otkrytie	EUR	12.4-12.55%	2017	1 292 979	1 288 845	-	-
				28 423 366	**27 757 172**	**27 568 289**	**25 656 593**
Less: current portion							
Long-term bonds (03)	RUB	12.9%	2021	(6 360)	(6 360)	(3 500)	(3 500)
Long-term bonds (04)	RUB	12.9%	2022	(91 180)	(91 180)	(56 120)	(56 120)
Gazprom	RUB	8%	2016	(10 000 000)	(9 402 677)	-	-
Gazprom Energoholding	RUB	10.5-12.5%	2015	-	-	(2 000 000)	(1 987 361)
Sberbank RF	RUB	11.4%	2016	(310 636)	(308 124)	(2 163 417)	(2 138 434)
ROSBANK	RUB	13.3-13.4%	2017	(59 821)	(53 940)	(1 253 081)	(1 253 081)
ROSBANK	RUB	MosPrime 1M +1,7%	2017	(685)	(685)	-	-
VTB	RUB	11.95-14.45%	2016-2018	(209 602)	(209 602)	(301 803)	(299 000)
NORDIC Investment Bank	EUR	EURIBOR + 3%	2015	(377 480)	(377 480)	(326 300)	(326 300)
Nordic Environment Finance Corporation	EUR	EURIBOR + 2%	2015	-	-	(17 199)	(17 199)
VBRR	RUB	12.5-15%	2017	-	-	(186 789)	(182 523)
Bank FK Otkrytie	EUR	12.4-12.55%	2017	(560 102)	(559 902)	-	-
Total long-term bank borrowings and bonds issued				**16 807 500**	**16 747 222**	**21 260 080**	**19 393 075**

The exposure of the Group's borrowings to interest rate changes at the end of the reporting period is disclosed in Note 31.

(in thousands of Russian Roubles)

Note 17. Long-term Borrowings (continued)

Compliance with covenants

Under long-term borrowings facility agreements, the Group is required to comply with certain financial and non-financial covenants. The most significant and most important of these being:

- to maintain particular ratios, i.e. the EBITDA to Finance Charges, the total debt to equity and the Current Ratio;
- to maintain certain liquidity and debt-to-assets ratio.

If any of these covenants are breached, the repayment can be altered by the respective lender, up to immediate repayment. There were no breaches of covenants in 2015 and 2014.

Note 18. Other Non-Current Liabilities

	31 December 2015	31 December 2014
Long-term accounts payable	185 623	208 755
Total other non-current liabilities	**185 623**	**208 755**

Other non-current liabilities are mainly presented by payables for installation of heating meters, paid by equal interests during four years.

Note 19. Post-Employment Benefits Obligations

The Group operates defined benefit and defined contribution pension plans. The Group has a contract with the “Non-state pension fund of the electrical energy industry” (“NPFE”) for some of these pension plans and contracts with NPF “Gazfond” (“Gazfond”).The Group runs the other plans independently of external pension funds. Defined contribution pension plans are considered immaterial for disclosure.

Through the “Gazfond”, the defined benefit pension plan provides for the payment, on retirement, of monthly pension benefits. The Group makes annual contributions to the solidarity account in the non-state pension fund. Contribution size is defined by the Group’s budget and is considered to be at least enough to finance running pension benefits. No part of this contribution is recognised as plan asset as far as the Group can recall this money. Pension benefits are paid from the solidarity account on a “pay-as-you-go” basis.

Through the “NPFE”, the defined benefit pension plan provides for the payment, on retirement, of monthly pension benefits. Upon retirement the pension liability of the Group is completely settled by contributions to individual account of each individual participant. Contribution size is defined by the Group’s budget and is considered to be at least enough to finance running pension benefits. There are no accumulations on the individual accounts of active employees of the plan and therefore there are no plan assets.

In addition to the NPFE and Gazfond pension plan, the Group provides defined-benefit financial support to old-age pensioners, who have completed certain service periods with the Group, and other post-employment benefits such as lump-sum payments on retirement, lump-sum financial aid, etc.

As at 31 December 2015 the Group engaged an independent actuarial company to evaluate its pension liabilities.

The tables below provide information about the benefit obligations, plan assets and actuarial estimates used for the year ended 31 December 2015 and 31 December 2014.

(in thousands of Russian Roubles)

Note 19. Post-Employment Benefits Obligations (continued)

The principal actuarial assumptions are as follows:

Principal actuarial assumptions (%):	**31 December 2015**	**31 December 2014**
Discount rate for benefits at accumulation phase	9.5%	13%
Indexation of fixed benefits	7%	7%
Life expectancy at age of 55 (women), years	25.8	25.4
Life expectancy at age 60 (men), years	16.2	15.6
Personnel rotation	Curve in depend on age	Curve in depend on age
Sample points: Men		
Age 30 years	9.5%	9%
Age 40 years	5.5%	5%
Age 50 years	3%	3%
Sample points: Women		
Age 30 years	7.5%	8%
Age 40 years	4.5%	5%
Age 50 years	3%	3.5%

Changes in the present value of the Group's defined benefit obligations are as follows:

	Year ended 31 December 2015	**Year ended 31 December 2014**
Benefit obligations as at the beginning of the period	**724 666**	**854 296**
Current service cost	39 249	28 336
Interest cost	91 607	65 825
Past service cost	-	(18 956)
(Gain)/loss from remeasurements of post-employment benefit obligations	182 456	(134 360)
Actuarial (gain)/losses – changes in financial assumptions	213 580	(170 430)
Actuarial (gain)/losses – changes in demographic assumptions	20 871	-
Actuarial (gain)/losses – adjustments	(51 995)	36 070
Program benefits	(79 246)	(70 475)
Benefit obligations as at the end of the period	**958 732**	**724 666**

Amounts recognised in profit or loss in the Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	Year ended 31 December 2015	**Year ended 31 December 2014**
Cost of service:	39 249	9 380
Current service cost	39 249	28 336
Past service cost	-	(18 956)
Interest expenses, net	91 607	65 825
(Gain)/loss from remeasurements of post-employment benefit obligations	6 871	(20 054)
Actuarial (gain)/losses – changes in financial assumptions	17 571	(22 139)
Actuarial (gain)/losses – changes in demographic assumptions	(2 247)	-
Actuarial (gain)/losses – adjustments	(8 453)	2 085
Total pension expenses, net	**137 727**	**55 151**

(in thousands of Russian Roubles)

Note 19. Post-Employment Benefits Obligations (continued)

Amounts recognised in other comprehensive income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, that will not be reclassified to profit or loss:

	Year ended 31 December 2015	Year ended 31 December 2014
Loss/(gain)/loss from remeasurements of post-employment benefit obligations	175 585	(114 305)
Actuarial losses/(gain) – changes in financial assumptions	196 009	(148 290)
Actuarial losses – changes in demographic assumptions	23 117	-
Actuarial (gain)/losses – adjustments	(43 541)	33 985
Total comprehensive income	**175 585**	**(114 305)**

Best estimate of contributions expected to be paid to the plan during the annual period beginning after 31 December 2015 equals to RUB 85 000 thousands.

Information about estimated maturity thresholds of the defined benefit obligations is presented below:

	Not later than one year	Later than one year and not later than two years	Later than one year and not later than five years	Later than five years	Total
NPO	26 586	28 213	53 510	103 466	211 775
Lump sum benefits	17 161	18 555	33 860	76 022	145 598
Monthly benefits	9 219	8 211	27 632	197 153	242 215
Other benefits	30 405	34 128	71 816	222 795	359 144
Total	**83 371**	**89 107**	**186 818**	**599 436**	**958 732**

Sensitivity analysis results of the defined benefit obligations as at 31 December 2015 is presented below. Sensitivity analysis was calculated for four parameters: discount rate, indexed fixed benefits, life expectancy and personnel rotation.

	Decrease	Calculated rate	Increase
Discount rate	8.5%	9.5%	10.5%
absolute value	1 048 229	958 732	883 238
change in obligations (%)	9.3%	-	(7.9%)
Indexation of fixed benefits	6%	7%	8%
absolute value	880 949	958 732	1 049 587
change in obligations (%)	(8.1%)	-	9.5%

Life expectancy	**Increase of life expectancy for 10% in each age**	**Calculated rate**	**Decrease of life expectancy for 10% in each age**
55 women	26.7	25.8	25.0
60 men	17.1	16.2	15.3
absolute value	983 273	958 732	936 506
change in obligations (%)	2.6%	-	(2.3%)

Personnel rotation	**Increase of personnel rotation for 1%**	**Calculated rate**	**Decrease of personnel rotation for 1%**
absolute value	917 278	958 732	1 005 604
change in obligations (%)	(4.3%)	-	4.9%

(in thousands of Russian Roubles)

Note 20. Short-Term Borrowings

	31 December 2015	31 December 2014
Bank borrowings and bonds issued	13 030 655	8 692 944
Total short-term borrowings	**13 030 655**	**8 692 944**

Name of lender	Currency	Contractual interest rate	31 December 2015		31 December 2014	
			Carrying amounts	Fair values	Carrying amounts	Fair values
Gazprombank	RUB	13-14%	1 133 899	1 125 517	1 460 317	1 460 317
Gazprom Energoholding	RUB	12.5%	-	-	744 564	728 381
VTB	RUB	14.45-14,9%	280 890	275 536	179 854	174 438
Current portion of long-term borrowings:						
Long-term bonds (03)	RUB	12.9%	6 360	6 360	3 500	3 500
Long-term bonds (04)	RUB	12.9%	91 180	91 180	56 120	56 120
Gazprom	RUB	8%	10 000 000	9 402 677	-	-
Gazprom Energoholding	RUB	10.5-12.5%	-	-	2 000 000	1 987 361
Sberbank RF	RUB	11.4%	310 636	308 124	2 163 417	2 138 434
ROSBANK	RUB	13.3-13.4%	59 821	53 940	1 253 081	1 253 081
ROSBANK	RUB	MosPrime 1M +1,7%	685	685	-	-
NORDIC Investment Bank	EUR	EURIBOR + 3%	377 480	377 480	326 300	326 300
VTB	RUB	11.95-14.45%	209 602	209 602	301 803	299 000
VBRR	RUB	12.5-15%	-	-	186 789	182 523
Nordic Environment Finance Corporation	EUR	EURIBOR + 2%	-	-	17 199	17 199
Bank FK Otkrytie	EUR	12.4-12.55%	560 102	559 902	-	-
Total bank borrowings and bonds issued			**13 030 655**	**12 411 003**	**8 692 944**	**8 626 654**

Note 21. Trade and other payables

	31 December 2015	31 December 2014
Trade accounts payable	2 562 375	2 947 505
Accounts payable for capital construction	2 178 181	2 142 870
Accrued liabilities and other payables	222 384	281 491
Total financial payables	**4 962 940**	**5 371 866**
Advances from customers	1 010 445	1 143 643
Current employee benefits	465 142	499 822
Total trade and other payables	**6 438 527**	**7 015 331**

(in thousands of Russian Roubles)

Note 22. Other Taxes Payable

	31 December 2015	31 December 2014
VAT payable	615 557	1 149 947
Employee taxes	186 698	103 361
Property tax	220 549	122 698
Personal Income Tax	57 511	54 884
Water usage tax	2	12 323
Other taxes	5 956	9 725
Total taxes payable	**1 086 273**	**1 452 938**

As at 31 December 2015 and as at 31 December 2014 the Group had no past due tax liabilities.

Note 23. Other Sales

	31 December 2015	31 December 2014
Connection of customers to heating network	750 100	727 087
Maintenance of electrical facilities	97 368	61 645
Installation of heating meters	43 729	2 149
Revenue from transit of rail cars	40 139	78 921
Handling of heating oil	24 354	42 712
Other	176 562	194 026
Total other sales	**1 132 252**	**1 106 540**

Note 24. Government Grants

In accordance to Murmansk region law № 919-01-3MO "About budget process in Murmansk region" Group received a grant in 2015 for the compensation of income in relation to providing heating services (sales to consummers of heat) per tariffs that don't cover expenses from Murmansk Region budget for a total amount of RUB 877 112 thousand (in 2014 – RUB 561 864 thousand).

Note 25. Operating Expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Fuel	26 404 738	28 513 546
Employee benefits	7 129 931	6 811 292
Depreciation of property, plant and equipment	7 068 383	6 573 971
Electricity, capacity and heat purchases	5 786 706	5 505 535
Repairs and maintenance	3 042 436	2 954 014
Water usage expenses	2 438 842	2 296 253
Heat distribution	1 958 245	1 246 637
Taxes other than income tax	1 189 300	1 082 272
Provision for impairment of accounts receivable	922 351	2 404 443
Fees of electricity market operators	857 318	835 700
Other materials	706 608	721 828
Security expenses	472 953	474 460
IT services	339 696	319 727
Operating lease expenses	345 303	297 681
Insurance cost	290 157	283 791
Telecommunication expenses	222 590	234 087
Fees of electricity market operators	200 829	200 526
Consulting, legal and audit expenses	138 592	126 448
Amortisation of intangible assets	124 544	132 893
Amortisation of investment property	12 465	6 028
Gain on disposal of property, plant and equipment	(160 051)	(1 589 916)
Other operating expenses	1 531 225	1 229 518
Total operating expenses	**61 023 161**	**60 660 734**

(in thousands of Russian Roubles)

Note 25. Operating Expenses (continued)

Profit from disposal of property, plant and equipment for 2014 included profit from sale of property, plant and equipment of Ondskaya HPS in the amount of RUB 1 418 304 thousand (Note 7).

Employee benefits are generally presented by wages and salaries. Social insurance contributions are included in "Employee benefits" in the amount of RUB 1 610 809 thousand (in 2014 – in the amount of RUB 1 461 566 thousand).

In 2015 amount of RUB 639 441 thousand of purchases and sales was settled by mutual cancellation (in 2014 – RUB 422 010 thousand).

Note 26. Other Operating Income

	Year ended 31 December 2015	Year ended 31 December 2014
Fines and penalties	220 035	231 779
Operating lease income	168 341	156 530
Insurance	50 687	38 964
Gain on sale of inventory	21 624	11 451
Written-off trade and other payables	13 484	26 446
Other operating income	44 204	86 595
Total other operating income	**518 375**	**551 765**

Note 27. Finance Income and Finance Costs

	Year ended 31 December 2015	Year ended 31 December 2014
Interest income	194 801	112 963
Effect of discounting of financial instruments	44 324	3 670
Finance income	**239 125**	**116 633**
Interest expense	(2 539 778)	(2 044 167)
Exchange differences (net)	(249 318)	(553 278)
Effect of discounting of financial instruments	(4 359)	(144 026)
Finance costs	**(2 793 455)**	**(2 741 471)**

Note 28. Earnings per Share

	Year ended 31 December 2015	Year ended 31 December 2014
Profit attributable to owners of the Company	6 061 340	3 889 674
Weighted average number of ordinary shares issued (thousands)	3 854 341 417	3 854 341 417
Earnings per ordinary share attributable to the owners of the Company after tax – basic and diluted – in Russian Roubles	**0.0016**	**0.0010**

(in thousands of Russian Roubles)

Note 29. Commitments

Sales commitments

The Group entities sell electricity, capacity and heat in thewholesale market’s regulated and free trading sectors. Regulated sector contracts are primarily signed with trading companies. Tariffs for electricity, capacity and heat sold under regulated delivery contracts are set by the FTS. Electricity can be bought in the free trading sector under contracts with OJSC FSC in order to fulfil obligations under regulated contracts.

Long-term contracts with OJSC FSC and short-term bilateral contracts with market entities were concluded for electricity, capacity and heat sales (not covered by regulated contracts) in the free trading market.

The Group also concluded export contracts with Fortum Power and Heat OY and RAO Nordic Oy. The Group’s sales commitments under these contracts, as at 31 December 2015, were: 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy (as at 31 December 2014 – 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy).

Fuel commitments

The Group has also concluded a number of fuel supply contracts. The main gas supplier is CJSC Gazprom Mezhregiongaz St Petersburg (a state controlled subsidiary of Gazprom Group) and the main coal suppliers are JSC «Russian coal» and LLC «Suek-Khakasia». The prices for natural gas and coal set in these contracts are mainly determined on the basis of tariffs established by the FTS, published inflation rates and current market prices.

Contractual capital commitments

As at 31 December 2015, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment in the amount of RUB 15 815 824 thousand (31 December 2014: RUB 8 188 601 thousand).

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease

The Group leases a number of land plots owned by local authorities under operating leases. Land lease commitments are determined by lease agreements and current cadastral values and are as follows:

	31 December 2015	31 December 2014
Not later than one year	105 939	85 485
Later than one year and not later than five years	394 844	339 613
Later than five years	2 733 607	2 323 368
Total operating lease	**3 234 390**	**2 748 466**

Note 30. Contingencies

Political environment

The Group’s operations and earnings continue, intermittently and to varying degrees, to be affected by ongoing political, legislative, fiscal and regulatory developments (including those related to environmental protection) in Russia.

Insurance

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance protection common in developed markets are not yet generally available.

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

Note 30. Contingencies (continued)

Insurance (continued)

Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain operating assets could have a material adverse effect on the Group's operations and financial position.

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. It is management's view that there are no current legal proceedings or other claims outstanding and not provided for which, on their conclusion, will have an adverse material effect on the Group's financial standing.

Tax legislation

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years, preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

As at 31 December 2015 and 2014 the Group estimates that it has no potential liabilities from exposure to probable or possible tax risks.

In addition, tax and other legislation do not specifically address all the aspects of the Group's reorganisation related to the electricity and utilities sector reforms. Therefore, the various interpretations, transactions and resolutions that were part of the reorganisation and reform process may give rise to tax/legal challenges.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately.

The Group owns the ash dumps on the territory of Russian Federation. In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" the Group has a liability for a land reclamation in respect of the lands used as the ash dumps. The Group's management considers that the liability cannot be reliably estimated because there are no plans on transferring the station on other types of fuel resulting in impossibility of definition the terms of ash dumps liquidation and land reclamation works. The Group's management also considers that estimated liability for the land reclamation does not influence significantly the Group's Statements of Financial Position, Profit or Loss and Other Comprehensive Income and Cash Flows. Management believes that there are no other legal or contractual obligations related to decommissioning or other disposal of assets.

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

(in thousands of Russian Roubles)

Note 31. Financial Risk Management

Within the Group, the risk management function is carried out with regard to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure remains within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk

The Group takes on exposure 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. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Financial assets, which potentially subject the Group to credit risk exposure, consist principally of trade receivables.

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 provision for impairment of receivables already recorded.

Cash transactions are conducted through high-credit-quality financial institutions. Cash is placed in financial institutions, which are considered at time of deposit to be at minimal risk of default.

The table below shows the rating of and balances with major banks at the reporting dates:

	Rating agency	National scale ratings	Long-term RDE* in foreign currency	31 December 2015	31 December 2014
Cash at bank and cash equivalents					
Gazprombank	Fitch	AA+(rus)	BB+	650 716	3 845
Bank Rossiya	Expert RA	A+	-	512 213	2 003 941
Sberbank RF	Fitch	AAA (rus)	Ba2	481 577	209 726
VTB	Standard & Poor's	ru AA+	BB+	54 824	45 073
Other	-	-	-	1 821	2 814
Total cash at bank and cash equivalents				**1 701 151**	**2 265 399**

** Rating of default of the emitent*

At the reporting date there were no significant credit risk concentrations. The maximum exposure to credit risk at the reporting date without taking account of any collateral held is as follows:

	31 December 2015	31 December 2014
Cash and cash equivalents (Note 11)	1 701 151	2 265 399
Short - term investments (Note 12)	42 073	30 073
Total short-term financial receivables (Note 14)	14 541 562	13 953 766
Total long-term financial receivables (Note 10)	1 273 073	369 044
Total	**17 557 859**	**16 618 282**

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that is deemed acceptable, and this is monitored on a daily basis. However, the use of this approach does not prevent losses outside these limits in the event of more significant market movements.

Sensitivities to the market risks detailed below are based on a change in one factor while all other factors remain constant. In practice this is unlikely to occur and there may be correlations between changes in some factors– such as, for example, changes in interest rate and foreign currency rates.

Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates in its financial position and cash flows. As at 31 December 2015, the Group had the following currency positions:

	RUB	USD	EUR	Total
Monetary financial assets				
Cash and cash equivalents	1 224 089	-	477 062	1 701 151
Short - term investments	42 073	-	-	42 073
Total short-term financial receivables	14 534 058	-	7 504	14 541 562
Total long-term financial receivables	1 273 073	-	-	1 273 073
Total financial assets	**17 073 293**	**-**	**484 566**	**17 557 859**
Monetary financial liabilities				
Long-term borrowings	(15 704 000)	-	(1 103 500)	(16 807 500)
Short-term borrowings	(12 653 175)	-	(377 480)	(13 030 655)
Total other financial liabilities	(5 148 563)	-	-	(5 148 563)
Total financial liabilities	**(33 505 738)**	**-**	**(1 480 980)**	**(34 986 718)**
Net balance sheet position	**(16 432 445)**	**-**	**(996 414)**	**(17 428 859)**

As at 31 December 2014, the Group had the following currency positions:

	RUB	USD	EUR	Total
Monetary financial assets				
Cash and cash equivalents	2 066 544	-	198 855	2 265 399
Short - term investments	30 073	-	-	30 073
Total short-term financial receivables	13 790 979	18 210	144 580	13 953 769
Total long-term financial receivables	369 044	-	-	369 044
Total financial assets	**16 256 640**	**18 210**	**343 435**	**16 618 285**
Monetary financial liabilities				
Long-term borrowings	(19 998 369)	-	(1 261 711)	(21 260 080)
Short-term borrowings	(8 349 445)	-	(343 499)	(8 692 944)
Total other financial liabilities	(5 564 510)	-	-	(5 564 510)
Total financial liabilities	**(33 912 324)**	**-**	**(1 605 210)**	**(35 517 534)**
Net balance sheet position	**(17 655 684)**	**18 210**	**(1 261 775)**	**(18 899 249)**

As at 31 December 2015, if the Russian Rouble had weakened/strengthened by 30% (2014: 30%) against the EURO with all other variables remaining constant, the year’s profit would have been RUB 298 924 thousand (2014: RUB 378 532 thousand) lower/higher.

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Currency risk (continued)

As at 31 December 2015 the Group did not held any financial assets and liabilities in US Dollars, and as at 31 December 2014 if the Russian Rouble had weakened/strengthened by 30% against the US Dollar with all other variables remaining constant, the year's profit would have been RUB 5 463 thousand lower/higher.

Since the Group does not hold any financial instruments attributed to equity, the effect of changes to the interest rate on equity would be the same as that on post-tax profit.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's liquidity risk management includes maintaining sufficient cash to fund operations and the investment programme, and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities, dividing them into relevant maturity groupings based on the remaining period to the contractual maturity datein the consolidated statement of financial position and the contractual undiscounted amounts.

		Contractual cash flows							
	Carrying amount	**Total**	**0 - 6 m**	**6 - 12 m**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**
As at 31 December 2015									
Long-term and short-term bonds	14 097 540	18 220 189	655 094	10 549 495	574 400	574 400	574 400	574 400	4 718 000
Long-term and short-term loans	15 740 615	17 931 845	3 320 443	1 206 244	12 641 249	387 603	376 306	-	-
Total other financial liabilities	5 148 563	5 180 552	3 555 879	1 407 061	81 914	74 347	34 487	17 246	9 618
Total financial liabilities	**34 986 718**	**41 332 586**	**7 531 416**	**13 162 800**	**13 297 563**	**1 036 350**	**985 193**	**591 646**	**4 727 618**
As at 31 December 2014									
Long-term and short-term bonds	16 804 184	21 253 090	3 359 601	660 580	11 174 669	514 560	514 560	514 560	4 514 560
Long-term and short-term loans	13 148 840	15 683 013	4 490 289	2 725 436	1 335 741	5 564 774	1 242 425	324 348	-
Total other financial liabilities	5 564 510	5 616 969	4 018 985	1 352 881	89 599	69 524	55 042	13 625	17 313
Total financial liabilities	**35 517 534**	**42 553 072**	**11 868 875**	**4 738 897**	**12 600 009**	**6 148 858**	**1 812 027**	**852 533**	**4 531 873**

Interest rate risk

The Group's operating profits and cash flows from operating activity are largely independent of changes in market interest rates. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Interest rate risk (continued)

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

	Carrying amount	
	31 December 2015	31 December 2014
Fixed rate instruments		
Long-term loans and borrowings	11 201 000	15 998 369
Short-term loans and borrowings	12 554 950	8 289 825
Variable rate instruments		
Long-term loans and borrowings	5 606 500	5 261 711
Short-term loans and borrowings	475 705	403 119
Total financial instruments	**29 838 155**	**29 953 024**

The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

A general increase/decrease of seven percent (as at 31 December 2014 seven percent) in interest rates would have decreased/increased the Group's profit after income tax for the year ended 31 December 2015 by approximately RUB 387 294 thousand (for the year ended 31 December 2014: RUB 380 983 thousand). The effect on equity (retained earnings) would be the same as on post-tax profit.

Fair value sensitivity analysis for fixed rate instruments

In 2015 the Group did not hold any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group did not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date would not affect profit or loss.

Fair values

Management believes that the fair values of the Group's other financial assets and liabilities approximate their carrying values as of both year ends, except fair value of borrowings as at 31 December 2015 (Note 17), and determines the appropriate level of the financial assets and liabilities using a three-tiered hierarchy on the basis of the lowest level input that is significant in fair value measurements.

Capital management

The Group's companies complies with the capital requirements for the joint-stock companies set by the legislation of the Russian Federation:

- share capital cannot be less than 1000 sizes of the minimum wage on the date of registration of the company;
- in case exceeding the amount of the share capital over the net assets, calculated based on the local legislation, the share capital should be decreased to the value of net assets;
- if a minimum level of share capital exceeds the amount of net assets, calculated based on the local legislation, the company should be liquidated.

The Group's capital management objectives are to safeguard its ability to continue as a going concern in order to provide returns to equity holders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares. The amount of capital defined as equity attributable to shareholders that the Group managed as of 31 December 2015 was RUB 97 164 015 thousand (2014: RUB 92 111 978 thousand). Capital management is linked to maintaining certain financial ratios to comply with bank-imposed covenants (Notes 17 and 20).

Note 32. Segment Information

The Group generates its revenues from electricity and heat power generation in one geographical segment: the Russian Federation (Note 3). The Group's major customers are regional electricity wholesalers. The Group has no single customer that accounts for 10% or more of its total revenue.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available.. The functions of the CODM are performed by Company's Management Board.

The Group's primary activity is producing electricity and heatpower and capacity. The technology of electricity and heatpower production does not allow the segregation of electricity and heatpower segments.

The Group's segments are strategic business units that focus on different customers. They are managed separately due to significant decentralisation and the distances that separate Company branches. The Group uses six primary reportable segments: TPP of Nevsky branch, HPS of Nevsky branch, St. Petersburg Heating Grid, Kolsky branch, Karelsky branch, Murmanskaya TPP. All reportable segments are located within the Russian Federation. In evaluating segment results and allocating the Group's economic resources the Management Board uses the financial information provided below prepared in accordance with Russian Accounting Standards (RAS). Differences between the above-mentioned financial indicators analysed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAS. The main differences relate to the respective carrying values of property, plant and equipment.

(in thousands of Russian Roubles)

Note 32. Segment Information (continued)

Year ended 31 December 2015	TPP of Nevsky branch	HPS of Nevsky branch	St. Petersburg Heating Grid	Kolsky branch	Karelsky branch	Murmanskaya TPP	Unallocated segments	Total segments	Eliminations	Adjustments	Total operating segments
Revenue:	38 447 265	3 327 007	7 046 836	9 376 306	6 370 648	6 050 960	6 530 678	**77 149 700**	(7 975 079)	(882 402)	**69 423 901**
including export	-	390 208	-	741 474	-	-	-	**1 131 682**	-	-	**1 131 682**
Depreciation of property, plant, equipment	6 569 759	394 899	2 185 118	618 269	364 232	39 474	15 606	**10 187 357**	-	(3 118 974)	**7 068 383**
Reportable segment profit / (loss)	569 640	2 097 224	465 157	3 513 613	1 562 056	171 126	(4 336 009)	**4 042 807**	(139 276)	3 559 315	**7 462 846**
Other material non-cash items:											
Impairment loss recognized /reversed	(333 580)	-	(2 367 278)	-	2 921 807	-	-	**220 949**	-	-	**220 949**

Year ended 31 December 2014	TPP of Nevsky branch	HPS of Nevsky branch	St Petersburg Heating Grid	Kolsky branch	Karelsky branch	Murmanskaya TPP	Unallocated segments	Total segments	Eliminations	Adjustments	Total operating segments
Revenue:	40 135 923	3 706 026	6 972 721	8 891 223	5 311 900	5 314 163	6 410 491	**77 459 800**	(7 900 712)	(562 875)	**68 996 213**
including export	-	93 342	-	624 011	-	-	-	**717 353**	-	-	**717 353**
Depreciation of property, plant, equipment	6 374 452	366 811	2 167 666	551 154	366 979	39 607	14 472	**9 881 141**	-	(3 307 170)	**6 573 971**
Reportable segment profit / (loss)	1 132 148	2 513 796	421 555	3 371 528	3 061 707	117 813	(6 465 759)	**4 152 788**	(200 582)	(80 813)	**3 871 393**
Other material non-cash items:											
Impairment loss recognized	-	-	-	-	(2 952 877)	-	-	**(2 952 877)**	-	-	**(2 952 877)**

(in thousands of Russian Roubles)

Note 32. Segment Information (continued)

A reconciliation of management financial information prepared based on RAS to IFRS figures is provided as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Elimination of bilateral contract's revenue	-	-
Reclassification of government grant of Murmanskaya TPP from revenue to other income	(877 112)	(561 864)
Other adjustments	(5 290)	(1 011)
	(882 402)	**(562 875)**
Depreciation adjustment	3 118 974	3 307 170
Elimination of electricity purchase on bilateral contracts	-	-
Reclassification of government grant of Murmanskaya TPP from revenue to other income	877 112	561 864
Interest capitalized	-	-
Reversal/(Charge) of property, plant and equipment impairment, net	220 949	(2 952 877)
Provision for impairment of trade and other accounts receivable	99 597	34 139
Actuarial losses	(58 481)	15 325
Effect of discounting	39 965	(140 356)
Other adjustments	143 601	(343 203)
	4 441 717	**482 062**
Total adjustments to profit before income tax	**3 559 315**	**(80 813)**

Segment's assets are disclosed below:

	31 December 2015	31 December 2014
TPP of Nevsky branch	61 599 726	62 740 376
HPS of Nevsky branch	8 729 274	8 871 078
St. Petersburg Heating Grid	40 169 150	38 625 212
Kolsky branch	11 962 702	11 905 090
Karelsky branch	5 925 839	5 113 945
Murmanskaya TPP	3 029 354	3 760 394
Unallocated segments	31 548 717	31 234 111
Total segments	**162 964 762**	**162 250 206**
Eliminations	(17 498 589)	(17 952 639)
Adjustments	9 428 606	6 032 437
Total assets	**154 894 779**	**150 330 004**

A reconciliation of management financial information prepared based on RAS to IFRS figures is provided as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Property, plant and equipment adjustment	10 142 392	6 637 707
Provision for impairment of trade and other accounts receivable	-	(99 597)
Deferred tax assets	100 106	85 302
Discounting of accounts receivables and investments	(218 179)	(262 503)
Other adjustments	(595 716)	(328 469)
Total assets adjustments	**9 428 603**	**6 032 440**

(in thousands of Russian Roubles)

Note 32. Segment Information (continued)

Unallocated assets are the assets which cannot be directly related to a particular operating segment, and also those which from the decision-making perspective fall outsidethe operating segment's control. These assets include short-and long-term trade receivables, cash in bank, deposits, inventories and fixed assets which are the subject to headquarter control.

The Group's management does not review the information relating to the operating segment's liabilities in order to make decisions about resource allocation since a significant proportion of the payment transactions are centralised.

Note 33. Non-Controlling Interest

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Profit or (loss) attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
Year ended 31 December 2015					
OJSC St Petersburg Heating Grid	Saint-Petersburg	25%	(240 913)	8 402 763	-
PJSC Murmanskaya TPP	Murmansk	9.66%	5 794	(37 390)	-
Total			**(235 118)**	**8 365 373**	
Year ended 31 December 2014					
OJSC St Petersburg Heating Grid	Saint-Petersburg	25%	254 559	8 646 876	-
PJSC Murmanskaya TPP	Murmansk	9.66%	4 666	(41 787)	-
Total			**259 225**	**8 605 089**	

The summarised financial information of OJSC St Petersburg Heating Grid and PJSC Murmanskaya TPP was as follows at 31 December 2015:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Total compre-hensive income	Cash flows
Year ended 31 December 2015								
OJSC St Petersburg Heating Grid	1 271 148	31 047 095	3 072 292	4 664 933	7 088 021	(963 651)	(976 449)	(49 966)
PJSC Murmanskaya TPP	2 065 451	1 021 927	3 225 237	1 455 693	5 144 630	59 984	45 530	(164 461)
Total	**3 336 599**	**32 069 022**	**6 297 529**	**6 120 626**	**12 232 651**	**(903 667)**	**(930 919)**	**(214 427)**
Year ended 31 December 2014								
OJSC St Petersburg Heating Grid	1 560 266	30 924 494	4 011 848	2 776 121	6 974 870	1 018 235	1 022 516	36 182
PJSC Murmanskaya TPP	2 938 351	893 252	4 037 810	1 432 874	4 752 299	48 303	49 088	195 233
Total	**4 498 617**	**31 817 746**	**8 049 658**	**4 208 995**	**11 727 169**	**1 066 538**	**1 071 604**	**231 415**

There are no significant restrictions for entity's ability to access or use the assets and settle the liabilities of the Group.

Note 34. Events after the Reporting Period

Borrowings

During the period between reporting date and signing date, the Group received short-term borrowings of RUB 1 523 000 thousand.

During the period between reporting date and signing date, the Group repaid borrowings of RUB 1 648 832 thousand.