

PJSC IDGC OF NORTHERN CAUCASUS

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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01.04.2016 N PCM-2081

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

To: the Shareholders of PJSC "IDGC of Northern Caucasus"

Audited entity:

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

Location: 13A, Podstancionnaya Street, Energetik village, Pyatigorsk, Stavropol region, 357506, the Russian Federation.

Primary state registration number – 1062632029778.

Auditor:

RSM RUS Ltd.

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

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

Primary state registration number – 1027700257540;

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

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

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

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

Management Board Chairwoman

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

ORNZ – 29605011647

Audit Manager

Audit Certificate No. 05-000030. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 30 November 2011 No. 25. Permanent award.

ORNZ– 21005008593



N.A. Dantser

N.N. Usanova

PJSC IDGC of Northern Caucasus
Consolidated Statement of Financial Position as at 31 December 2015
(thousands of Russian Roubles, unless otherwise stated)

	Notes	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	8	14,993,930	16,931,275
Intangible assets	9	99,930	86,386
Accounts receivables and loans issued	13	82,764	391,365
Deferred tax assets	10	2,984,760	1,584,405
Other non-current assets	11	1,060,702	1,061,789
Total non-current assets		19,222,086	20,055,220
Current assets			
Inventories	12	532,046	747,126
Income tax receivable		38,925	1,721
Trade and other receivables	13	3,431,965	3,086,186
Prepayments for current assets	14	16,905	18,139
Cash and cash equivalents	15	1,604,508	1,858,201
Non-current assets held for sale	16	8,583	10,539
Total current assets		5,632,932	5,721,912
TOTAL ASSETS		24,855,018	25,777,132
EQUITY AND LIABILITIES			
Equity			
Share capital	17	154,562	154,562
Additional paid in capital		5,052,502	5,052,502
Reserves		(109,315)	(142,755)
Retained earnings /(loss)		1,231,819	(4,878,846)
Total equity		6,329,568	185,463
Non-current liabilities			
Loans and borrowings	18	4,126,758	5,522,900
Trade and other payables	20	470,879	476,365
Employee benefits	19	660,876	632,287
Total non-current liabilities		5,258,513	6,631,552
Current liabilities			
Loans and borrowings	18	5,260,877	2,054,955
Trade and other payables	20	6,866,043	13,912,184
Provisions	22	113,063	2,031,806
Other taxes payable	21	693,651	705,412
Income tax payables		333,303	255,760
Total current liabilities		13,266,937	18,960,117
Total liabilities		18,525,450	25,591,669
TOTAL EQUITY AND LIABILITIES		24,855,018	25,777,132

These consolidated financial statements were approved by management on 31 March 2016 and were signed on its behalf by:

General Director

Y.V. Zaytsev

Chief Accountant

N.V. Larionova



Ref

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 52.

PJSC IDGC of Northern Caucasus

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015
(thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	23	16,079,258	14,763,252
Operating expenses	24	(24,335,421)	(23,328,475)
Other operating income	25	13,988,755	90,466
Operating profit/(loss)		5,732,592	(8,474,757)
Finance income	27	166,618	154,390
Finance costs	27	(848,727)	(243,734)
Profit/(loss) before income tax		5,050,483	(8,564,101)
Income tax benefit	28	1,060,182	178,073
Profit/(loss) for the year		6,110,665	(8,386,028)
Total comprehensive profit/(loss)			
<i>Items that will never be reclassified to profit or loss</i>			
Remeasurement of defined benefit liability	19	34,053	11,118
Related income tax		(613)	(31,148)
Total items that will never be reclassified to profit or loss		33,440	(20,030)
Other comprehensive profit/(loss), net of income tax		33,440	(20,030)
Total comprehensive profit/(loss) for the year		6,144,105	(8,406,058)
Profit/(loss) per share - basic and diluted (in Russian Roubles)	17	39.54	(54.26)

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 52.

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Operating activities			
Profit/(loss) before income tax		5,050,483	(8,564,101)
<i>Adjustments for reconciliation of profit/(loss) before income tax and net cash flows:</i>			
Depreciation and amortisation	8, 9, 24	1,487,836	1,558,011
Allowance for impairment of accounts receivable	24, 29	4,711,630	2,758,899
Reversal of allowance for obsolescence of inventories	12	(2,639)	(20,813)
Impairment loss on property, plant and equipment	8, 24	1,804,780	3,074,103
Provision for unused vacation		(23,172)	57,331
Provision for legal processes	22	329,506	1,788,576
Finance income	27	(166,618)	(154,390)
Finance costs	27	848,727	243,734
Gain on disposal of property, plant and equipment	25	(46,885)	(1,782)
Gain on deconsolidation of subsidiary	6	(13,624,951)	–
Other non-cash transactions		(7,328)	–
Operating profit before working capital changes		361,369	739,568
<i>Changes in working capital:</i>			
Change in accounts receivable		(4,628,253)	(2,651,809)
Change in prepayments for current assets		1,218	33,554
Change in inventories		207,374	22,778
Change in assets related to the employee benefit fund		19,407	(9,585)
Change in accounts payable		4,041,584	2,364,636
Change in employee benefits		(5,803)	19,423
Change in other taxes payable		(11,761)	493,668
Cash flows from operations before income tax and interest paid		(14,865)	1,012,233
Interest paid		(779,093)	(469,737)
Income tax paid in cash		(89,455)	(317,969)
Net cash flows from operating activities		(883,413)	224,527
Investing activities			
Acquisition of property, plant and equipment		(1,273,038)	(1,286,683)
Proceeds from disposal of property, plant and equipment		12,906	409
Proceeds from disposal of assets held for sale		3,463	–
Acquisition of intangible assets		(54,086)	(69,951)
Loans issued		–	(91,665)
Repayment of issued loans		–	180,000
Interest received		107,873	86,886
Net cash flows used in investing activities		(1,202,882)	(1,181,004)
Financing activities			
Proceeds from loans and borrowings		2,703,354	981,774
Repayment of loans and borrowings		(864,542)	–
Dividends paid	17	(57)	(133,669)
Repayment of finance lease liabilities		(6,153)	(8,689)
Net cash flows from financing activities		1,832,602	839,416
Net decrease in cash and cash equivalents		(253,693)	(117,061)
Cash and cash equivalents at the beginning of the year	15	1,858,201	1,975,262
Cash and cash equivalents at the end of the year	15	1,604,508	1,858,201

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 52.

PJSC IDGC of Northern Caucasus
Consolidated Statement of Changes in Equity for the year ended 31 December 2015
(thousands of Russian Rubles, unless otherwise stated)

	Share capital	Additional paid in capital	Reserves	Retained earnings/ (loss)	Total equity
Balance at 1 January 2014	154,562	5,052,502	(122,725)	3,641,574	8,725,913
Loss for the year	-	-	-	(8,386,028)	(8,386,028)
Remeasurement of defined post-employment benefit liability (Note 19)	-	-	11,118	-	11,118
Related income tax	-	-	(31,148)	-	(31,148)
Total comprehensive loss for the year	-	-	(20,030)	(8,386,028)	(8,406,058)
Transactions with owners, recorded directly in equity					
Dividends (Note 17)	-	-	-	(134,392)	(134,392)
Total transactions with owners, recorded directly in equity	-	-	-	(134,392)	(134,392)
Balance at 31 December 2014	154,562	5,052,502	(142,755)	(4,878,846)	185,463
Balance at 1 January 2015	154,562	5,052,502	(142,755)	(4,878,846)	185,463
Profit for the year	-	-	-	6,110,665	6,110,665
Remeasurement of defined post-employment benefit liability (Note 19)	-	-	34,053	-	34,053
Related income tax	-	-	(613)	-	(613)
Comprehensive income for the year	-	-	33,440	6,110,665	6,144,105
Balance at 31 December 2015	154,562	5,052,502	(109,315)	1,231,819	6,329,568

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 52.

Note 1. Background

(a) The Group and its operations

Due to changes in the Civil Code of the Russian Federation at the Annual General Shareholders' Meeting held on 11 June 2015 the changes of organizational and legal form in the Charter of the Company were approved. Open Joint Stock Company Interregional Distribution Company of Northern Caucasus was changed to Public Joint Stock Company Interregional Distribution Company of Northern Caucasus.

Public Joint Stock Company Interregional Distribution Grid Company of Northern Caucasus (hereafter, the "Company" or "PJSC IDGC of Northern Caucasus", previously "OJSC IDGC of Northern Caucasus") and its subsidiaries (together referred to as the "Group") comprise joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 14 June 2006. Until 1 August 2007 the Company was named OJSC Southern Grid Company.

On 1 April 2008 the reorganization of the Company was completed through the merger of the grid companies of JSC Stavropolenergo, JSC Dagenergo, and JSC Caucasian Energy Management Company.

The Company's registered office is 13A, Podstancionnaya Street, Energetik village, Pyatigorsk, Stavropol region, the Russian Federation, 357506.

The Group consists of the Company and its subsidiaries:

Name	Ownership, %	
	31 December 2015	31 December 2014
JSC Grid Company of Dagestan (OJSC Energoservice)	100.0	100.0
OJSC Dagenergoset	-	100.0

On 3 April 2015 due to changes in the Charter of OJSC Energoservice the name and organisational and legal form were changed to Joint Stock Company Grid Company of Dagestan.

According to the court decision dated 26 October 2015 OJSC Dagenergoset entered in the bankruptcy proceedings - observation. Hence, from this moment the Company lost control over the subsidiary and the deconsolidation of the subsidiary was recognised in the consolidated financial statements for the year ended 31 December 2015 (Note 6). From 1 July 2015 the operating activity of OJSC Dagenergoset was transferred to JSC Grid Company of Dagestan.

The Group's principal activities are the transmission of electricity and the connection of customers to the electricity grid.

As at 31 December 2015 and as at 31 December 2014 the Russian Government presented by the Agency for State Property Management owned 86.32% of the voting ordinary shares and 7.01% of the preference shares of PJSC ROSSETI, which in turn owned 92.00% of the Company.

(b) Relations with the state and regulation of the Group

Since its foundation the Company has been under control of the Government of the Russian Federation. The Government of the Russian Federation influences the Group's activities through setting power transmission and distribution tariffs.

In accordance with legislation, the Group's tariffs are controlled by the Federal Antimonopoly Service and by the Executive Bodies of subjects of the Russian Federation in the field of state regulation of tariffs. As of 21 July 2015 the Federal Service on Tariffs was abolished and its powers were transferred to the Federal Antimonopoly Service.

(c) Russian business environment

In 2015 and 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. The Rouble interest rates remained high after the Central Bank of Russia raised its key rate to 17% followed by the gradual decrease to 11% in 2015. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Note 2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2010.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

(d) Going concern

These consolidated financial statements have been prepared on a going concern basis.

As at 31 December 2015 the Group had a net working capital deficit of RUB 7,634,005 thousand (as at 31 December 2014: RUB 13,238,205 thousand).

For the year ended 31 December 2015 a net profit of the Group amounted to RUB 6,144,105 thousand (for the year ended 31 December 2014: a net loss RUB 8,406,058 thousand), including gain on deconsolidation of OJSC Dagenergoset in the amount of RUB 13,624,951 thousand, carrying losses of OJSC Dagenergoset of RUB 1,218,788 thousand (for the year ended 31 December 2014: carrying losses of OJSC Dagenergoset of RUB 5,507,359 thousand) and the impairment loss on the Group’s property, plant and equipment in the amount of RUB 1,804,780 (for the year ended 31 December 2014: thousand RUB 3,074,103 thousand).

From 1 July 2015 operating activity of OJSC Dagenergoset was transferred to JSC Grid Company of Dagestan. Tariff setting issues in the Dagestan Republic are under control of Management and the Board of Directors of the Company, the strategic decisions are taken in order to improve finance results of the company in the region.

Management monitors maturities of the estimated cash flows from operating and financing activities and manages current liquidity using open credit lines. As at 31 December 2015 the Group had unused credit lines in the amount of RUB 1,213,815 thousand (as at 31 December 2014: RUB 2,684,702 thousand). Management considers that the Group has the ability to raise additional loans and borrowings.

In order to increase efficiency of working capital management the Group is focused on an increased collection of trade receivables, including doubtful receivables. The Group approved a plan of measures to reduce outstanding receivables for electricity transmission and settlement of disputes with customers. The issues regarding collection of receivables are considered by the Management Board on a regular basis.

Management believes that the Group has adequate resources to continue operation activities and to repay current liabilities. Management also believes that measures taken would be able to improve finance statements of the Group and there is no significant uncertainty regarding the Group’s ability to continue as going concern in the foreseeable future.

(e) Use of judgments, estimates and assumptions

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

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

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

- Note 8 – Property, plant and equipment;
- Note 10 – Deferred tax assets;
- Note 12 – Inventories;
- Note 13 – Trade and other receivables;
- Note 19 – Employee benefits;

- Note 22 –Other provisions.

Note 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Business combinations including entities under common control

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

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) Financial instruments

(ii) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings, as well as trade and other payables.

(iii) Non-derivative financial assets

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

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

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

The Group has the following non-derivative financial assets: trade and other receivables, cash and cash equivalents.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 13.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value. Cash and cash equivalents are presented in Note 15.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

(iv) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

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

(d) Share capital

Ordinary shares

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

(c) Property, plant and equipment and investment property

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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

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

Type of property, plant and equipment	Useful lives (years)
Buildings and structures	10-80
Transmission network	10-60
Equipment for electricity transformation	5-40
Other	3-20

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

(f) Intangible assets

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

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

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

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

Type of intangible assets	Useful lives (years)
Licenses and certificates	3-6
Software	1-5
Other	1-10

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

Among the Research and Development group are development, engineering and technological works. Expected useful lives are determined in each case of pending of Research and Development results, but it is not able to be more than 5 years.

(g) Leased assets

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

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

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

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

(i) Impairment

(i) Non-derivative financial assets

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

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

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

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

(iii) Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(j) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit post-employment plans

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

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The actuarial gain or loss related to the defined benefit obligation is recognised in the statement of other comprehensive income.

(iii) Other non-current employee benefits

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

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Provisions

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

(l) Revenue

(i) Electricity distribution and sales of electricity

Revenue from distribution and sales of electricity is recognised in profit or loss based on an act of services rendered containing the physical volume of electricity distributed or sold. The act is prepared based on a monthly report of electricity consumption (prepared in physical volumes) for each customer. The tariffs for distribution and sales of electricity on regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Service on Tariffs.

(ii) Connection services

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services.

Revenue is recognized when act of acceptance is signed. For contracts where connection services are performed in stages, revenue is recognized in the proportion to the stage of completion when act of acceptance is signed by the customer.

(iii) Other services

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

(m) Finance income and costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets and discounts on financial instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, financial leasing, discounts on financial instruments and impairment losses recognised on financial assets other than trade receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(n) Income tax expense

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

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

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

Deferred tax is not recognised for:

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

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

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

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

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

(o) Earnings per share

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

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(p) Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only when they are declared (approved by shareholders) before or on the reporting date. Dividends are disclosed in the notes to the consolidated financial statements when they are declared after the reporting date, but before the consolidated financial statements are authorised for issue.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segment's results are reviewed regularly by the General Director to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Segment financial information is presented in the Financial Statements in a manner similar to those provided to the General Director. The amount of each segment item reported is the measure reported to the General Director. Total amounts of segment information are reconciled to those in the consolidated financial statements (Note 7).

(r) Related parties

As the Group is a government-related entity it applies the exemption on disclosure of information about transactions with entities that are related parties because the Government of Russian Federation has control, joint control or significant influence both over them and the Group.

(s) Changes in accounting policies

The following Interpretations and amendments to Standards which are effective from 1 January 2015 the Group applied for the first time. However, they do not significantly impact the consolidated financial statements:

- *Defined Benefit Plans: Employee Contributions* – Amendments to IAS 19 *Employee Benefits*. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- *Various Annual Improvements 2010-2012 Cycle* include:
 - *IFRS 2 Share-based Payment*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods.

- *IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9.

- *IFRS 8 Operating Segments*

The amendments are applied retrospectively and clarify that:

- an entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in these consolidated financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

- *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

The Group has not early adopted standards, amendments and interpretations that have been issued but are not yet effective.

Note 4. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective up to the date of issuance of the Group's financial statements, and have not been applied in preparing these consolidated financial statements. The following standards and interpretations may have potential impact on the Group's operations. The Group plans to adopt the following pronouncements when they become effective:

- *IFRS 14 Regulatory Deferral Accounts* is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. The Group does not plan to apply IFRS 14.
- *IFRS 9 Financial Instruments* was issued in phases and ultimately replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment IFRS 9 replaces the 'incurred loss' model used in IAS 39, with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses. The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group acknowledges that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The Group is currently assessing the impact of the standard on the consolidated financial statements. The Group does not intend to adopt this standard early.

- IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group is currently assessing impact of IFRS 15 on its consolidated financial statements. The Group does not intend to adopt this standard early.
- IFRS 16 *Leases*. IFRS 16 is single guidance for lease accounting and contains requirements for related disclosures. The new standard replaces IAS 17 *Leases* and the related interpretations on lease. The standard is partly or fully retrospectively effective for annual periods beginning on or after 1 January 2019, with earlier application permitted under the simultaneous application of IFRS 15. The Group acknowledges that the new standard introduces many changes to the accounting for the lease and is likely to have a significant impact on Group's consolidated financial statements. The Group is currently assessing the impact of the standard on the consolidated financial statements. The Group does not intend to adopt this standard early.
- Amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*, entitled *Clarification of Acceptable Methods of Depreciation and Amortization*. Amendments clarify 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. These amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted. These amendments are not expected to have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.
- Amendments to IFRS 10 *Consolidated Interim Condensed Financial Statements* and IAS 28 *Investments in Associates* entitled *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. These narrow scope amendments clarify, that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not), and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted. These amendments are not expected to have any impact on the Group.
- Amendment to IFRS 11 *Joint Arrangements*, entitled *Accounting for Acquisitions of Interests in Joint Operations*. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and requires the application of IFRS 3 *Business Combinations*, for such acquisitions. The amendment is prospectively effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. These amendments are not expected to have any impact on the Group because the Group has no interest in a joint operation.
- Amendments to IAS 27 *Separate financial statements*, entitled *Equity Method in Separate Financial Statements*. 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. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's financial statements.
- Various *Annual Improvements 2012-2014 Cycle* are effective for annual periods beginning on or after 1 January 2016. They include:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

- IFRS 7 *Financial Instruments: Disclosures*

Servicing contracts. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

Applicability of the amendments to IFRS 7 to condensed interim financial statements. The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This

amendment must be applied retrospectively.

- *IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively. These amendments are not expected to have any impact on the Group.

- *Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and other comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Note 5. Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(e) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(f) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 6. Deconsolidation of a subsidiary

In 2015 OJSC Dagenergoset entered in the bankruptcy proceedings. According to the court decision dated 26 October 2015 OJSC Dagenergoset became subjected to the control of the interim trustee. Hence, as of 26 October 2015 the Company lost control over the subsidiary. At this point in time the Company recognised the fair value of the investment retained in the former subsidiary in the amount of RUB 150 thousand. The investment was impaired down to zero.

At the date of disposal, the carrying amount of the subsidiary's assets and liabilities were as follows:

	Carrying amount at the date of disposal
Non-current assets	
Property, plant and equipment	24,066
Intangible assets	1,268
Current assets	
Inventories	37,042
Trade and other receivables	170,490
Prepayments for current assets	16
Cash and cash equivalents	69
Current liabilities	
Trade and other payables	(11,468,930)
Provisions	(500,721)
Other taxes payable	(1,677,823)
Income tax payables	(210,278)
Net identifiable assets and liabilities	(13,624,801)
Gain on disposal	13,624,951

The subsidiary contributed RUB 1,218,788 thousand of loss to the net profit for the reporting period. Gain on deconsolidation of the subsidiary was recorded in the other operating income in the amount of RUB 13,624,951 thousand (Note 25).

As at 31 December 2015 the Group accrued an allowance for doubtful accounts receivables of OJSC Dagenergoset in the amount of RUB 2,089,810 thousand (Note 29).

From 1 July 2015 the operating activity and almost all staff of OJSC Dagenergoset were transferred to JSC Grid Company of Dagestan.

Note 7. Operating segments

The General Director of the Company has been determined as the Group Chief Operating Decision-Maker.

The Group's primary activity is the provision of electricity transmission services within the regions of the Russian Federation. The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation and segments relating to other activities.

The General Director regularly evaluates and analyses the financial information of the segments reported in the statutory financial statements of respective segments.

In accordance with requirements of IFRS 8 based on the information on segments revenues and profits before income tax reported to the General Director the following reporting segments were identified:

- Transmission Segments: Dagestan Republic, North Ossetia-Alania Republic, Stavropol region, Kabardino-Balkar and Karachaevo-Cherkessia Republics, Republic Ingushetia - the main activity of which is the provision of electricity transmission and distribution services within the Russian Federation;
- The other segment includes operations of JSC Grid Company of Dagestan (OJSC Energoservice) which didn't meet any of the quantitative thresholds for determining reportable segments in 2014 and for the six months ended 30 June 2015. Since 1 July 2015 JSC Grid Company of Dagestan was included in the Dagestan Republic segment.

Before July 2014 the Dagenergo branch performed no economic activity and its transmissions assets were leased to OJSC Dagenergoset. In July 2014 the Dagenergo branch started to provide the transmission of electricity and the connection of customers to the electricity grids services. The Dagenergo branch and OJSC Dagenergoset are included in Electricity transmission segment as the Dagestan Republic segment.

Since 1 July 2015 the operating activity of OJSC Dagenergoset was transferred to JSC Grid Company of Dagestan. Since the second half of 2015 JSC Grid Company of Dagestan started to provide the transmission of electricity and the connection of customers to the electricity grids services. So since 1 July 2015 JSC Grid Company of Dagestan was included in the Dagestan Republic segment.

Unallocated items comprise corporate balances of the Company's headquarters which do not constitute an operating segment under IFRS 8 requirements.

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

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenue and profit before income tax, as included in the internal management reports that are reviewed by the General Director. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

For the year ended 31 December 2014

	Transmission Segments					Total
	Stavropol Region	Dagestan Republic	North Ossetia- Alania Republic	Kabardino- Balkar Republic	Karachayevo- Cherkessian Republic	Ingushetia Republic
Revenue						
Revenue from external counterparties	7,065,089	2,418,480	1,559,439	1,682,373	1,389,263	579,065
Inter-segment revenue	703	1,023,040	—	—	—	—
Total segment revenue	7,065,792	3,441,520	1,559,439	1,682,373	1,389,263	579,065
						18,210
						15,735,662
Including:						
<i>Electricity transmission</i>	6,610,582	2,809,145	1,550,154	1,656,110	1,384,552	577,650
<i>Connection to the electricity network</i>	410,106	12,161	1,332	22,595	1,437	475
<i>Other revenue</i>	45,104	620,214	7,953	3,668	3,274	940
						18,210
						699,363
Accrual of contingent liabilities reserve	(21,618)	(123,710)	(21,024)	(16,586)	(11,332)	(561)
Reversal of contingent liabilities reserve	6,151	75,101	350	—	134	23
						(194,831)
						81,759
Finance income	71,979	4,534	15,082	16,082	13,839	5,776
Finance costs	(104,494)	(28,881)	(69,179)	(65,013)	(84,437)	(8,940)
Depreciation	(743,608)	(491,648)	(180,124)	(219,328)	(193,234)	(53,803)
						(763)
Profit/(loss) before income tax	648,258	(4,955,040)	(295,819)	(194,721)	62,457	(739,050)
Income tax	(179,783)	676,894	38,303	24,662	(17,673)	150,142
						(277)
						692,268

As at 31 December 2015

	Transmission Segments					Total
	Stavropol Region	Dagestan Republic	North Ossetia- Alania Republic	Kabardino- Balkar Republic	Karachayevo- Cherkessian Republic	Ingushetia Republic
Segment assets	9,454,308	9,303,495	3,413,744	3,107,751	2,212,765	1,726,013
<i>Including property plant and equipment</i>	7,785,171	8,020,259	2,135,802	2,369,071	2,038,688	1,169,252
Segment liabilities	2,387,856	3,032,634	750,929	716,787	519,412	533,207
Capital expenditure	706,539	147,615	188,916	78,277	82,462	2,030

As at 31 December 2014

	Transmission Segments					Total
	Stavropol Region	Dagestan Republic	North Ossetia- Alania Republic	Kabardino- Balkar Republic	Karachayevo- Cherkessian Republic	Ingushetia Republic
Segment assets	9,515,786	11,500,615	3,748,129	3,148,484	2,314,473	1,638,047
<i>Including property, plant and equipment</i>	7,824,021	8,213,453	2,190,042	2,478,981	2,134,796	1,278,392
Segment liabilities	1,810,893	11,337,937	715,974	606,172	526,989	473,949
Capital expenditure	948,534	390,672	97,610	136,069	205,885	108,335

(ii) Reconciliation of reportable segment revenue, profit/(loss) before income tax and assets and liabilities

Reconciliation of key segment items measured as reported to the General Director with similar items in these financial statements is presented in the tables below.

Reconciliation of reportable segment revenue is presented below:

	Year ended 31 December 2015	Year ended 31 December 2014
Total segment revenues	16,954,246	15,735,662
Inter-segment revenue elimination	(957,245)	(1,041,943)
Reclassification from other income	—	890
Unallocated revenues	82,257	68,643
Revenues per consolidated statement of profit or loss and other comprehensive income	16,079,258	14,763,252

The Group performs its activities in the Russian Federation and does not have any significant revenues from foreign customers or any significant non-current assets located in foreign countries.

Reconciliation of reportable segment loss before income tax is presented below:

	Year ended 31 December 2015	Year ended 31 December 2014
Total segment loss before income tax	(6,803,275)	(5,473,035)
Adjustment for property, plant and equipment	693,787	604,346
Impairment loss on property, plant and equipment	(1,804,780)	(3,074,103)
Adjustment for finance leasing	8,360	(17,520)
Adjustment for inventories evaluation	(211)	39
Bad debt allowance adjustment	(1,324,164)	1,006,533
Other provisions adjustment	1,323,075	(1,565,571)
Retirement benefit obligations recognition	(63,891)	(36,493)
Reclassified expenses for the purposes of IFRS	(444,185)	85
Discounting of long-term receivables	15,383	12,036
Discounting of long-term payables	(48,911)	(35,665)
Reversal of investments to subsidiaries impairment	(80,150)	80,150
Gain on disposal of subsidiary	13,624,951	—
Other adjustments	(42,506)	17,326
Unallocated	(3,000)	(82,229)
Profit/(loss) before income tax per consolidated statement of profit or loss and other comprehensive income	5,050,483	(8,564,101)

Reconciliation of reportable segment total assets is presented below:

	31 December 2015	31 December 2014
Total segment assets	29,218,076	31,872,373
Adjustment for net book value of property, plant and equipment	(9,950,125)	(8 839 133)
Adjustments for impairment of accounts receivable	462,791	(13,867)
Adjustments for discounting account receivables	(41,534)	(56,917)
Inventories written-off	(5,785)	(5,785)
Recognition of assets related to employee benefits	273,124	274,373
Adjustment for deferred tax calculation	(1,534,767)	(1,687,327)
Adjustment for finance leasing	(1,250)	(3,458)
Other adjustments	(2,017)	(1,638)
Unallocated assets*	6,436,505	4,238,511
Total assets per consolidated statement of financial position	24,855,018	25,777,132

Reconciliation of reportable segment total liabilities is presented below:

	31 December 2015	31 December 2014
Total segment liabilities	7,940,825	15,488,033
Adjustments for discounting accounts payable	(685,655)	(734,565)
Post-employment benefits	660,876	632,287
Adjustment for deferred tax calculation	(1,046,046)	(914,311)
Adjustment for finance leasing	7,910	14,062
Adjustment for other provisions	242,496	1,565,571
Income tax payables adjustment	210,278	210,278
Other adjustments	21,900	(20,031)
Unallocated liabilities*	11,172,866	9,350,345
Total liabilities per consolidated statement of financial position	18,525,450	25,591,669

* unallocated assets and liabilities mainly consist of loans, cash and certain Property, plant and equipment, and include amounts on deconsolidation of the subsidiary (Note 6).

Note 8. Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transfor- mation	Construction in progress	Other	Total
<i>Cost</i>						
Balance at 1 January 2014	1,263,046	7,647,139	7,877,400	6,584,594	2,517,695	25,889,874
Additions	133,596	139,664	147,979	1,788,486	148,935	2,358,660
Transfer	28,887	895,309	549,872	1,837,565	363,497	—
Disposals	(356)	(561)	(801)	(12,493)	(9,626)	(23,837)
Transfer to non-current assets held for sale	(283)	—	—	—	—	(283)
Balance at 31 December 2014	1,424,890	8,681,551	8,574,450	6,523,022	3,020,501	28,224,414
Balance at 1 January 2015	1,424,890	8,681,551	8,574,450	6,523,022	3,020,501	28,224,414
Additions	1,024	435	6,022	1,325,322	49,005	1,381,808
Transfer	466,974	498,810	777,185	(2,808,867)	1,065,898	—
Disposals	(1,455)	(3,995)	(1,416)	(57,392)	(38,318)	(102,576)
Disposals due to deconsolidation of subsidiary	—	(4,508)	(54,857)	(15,331)	(34)	(74,730)
Transfer to non-current assets held for sale	(315)	—	—	—	(1,383)	(1,698)
Balance at 31 December 2015	1,891,118	9,172,293	9,301,384	4,966,754	4,095,669	29,427,218
<i>Accumulated depreciation and impairment</i>						
Balance at 1 January 2014	(296,379)	(3,098,802)	(2,018,283)	(245,691)	(1,046,351)	(6,705,506)
Depreciation for the year	(80,411)	(492,598)	(494,786)	—	(453,221)	(1,521,016)
Impairment loss	(12,920)	(678,662)	(501,916)	(1,878,580)	(2,025)	(3,074,103)
Transfer	—	718	—	(718)	—	—
Disposals	38	403	476	—	6,483	7,400
Transfer to non-current assets held for sale	86	—	—	—	—	86
Balance at 31 December 2014	(389,586)	(4,268,941)	(3,014,509)	(2,124,989)	(1,495,114)	(11,293,139)
Balance at 1 January 2015	(389,586)	(4,268,941)	(3,014,509)	(2,124,989)	(1,495,114)	(11,293,139)
Depreciation for the year	(84,475)	(431,781)	(482,500)	—	(449,805)	(1,448,561)
Impairment loss	(134,438)	(498,015)	(690,408)	(447,406)	(34,513)	(1,804,780)
Transfer	(47,369)	(56,248)	(9,107)	506,028	(393,304)	—
Disposals	308	3,157	657	32,276	26,072	62,470
Disposals due to deconsolidation of subsidiary	—	3,089	37,711	9,830	34	50,664
Transfer to non-current assets held for sale	58	—	—	—	—	58
Balance at 31 December 2015	(655,502)	(5,248,739)	(4,158,156)	(2,024,261)	(2,346,630)	(14,433,288)
<i>Net book value</i>						
At 1 January 2014	966,667	4,548,337	5,859,117	6,338,903	1,471,344	19,184,368
At 31 December 2014	1,035,304	4,412,610	5,559,941	4,398,033	1,525,387	16,931,275
At 31 December 2015	1,235,616	3,923,554	5,143,228	2,942,493	1,749,039	14,993,930

As at 31 December 2015 construction in progress includes advances for property, plant and equipment of RUB 569,763 thousand (as at 31 December 2014: RUB 622,513 thousand).

As at 31 December 2015 advances for property, plant and equipment with a carrying amount of RUB 89,628 thousand were impaired (as at 31 December 2014: RUB 32,704 thousand). The impairment loss was recognised in operating expenses.

As at 31 December 2015 construction in progress includes construction materials of RUB 23,321 thousand (as at 31 December 2014: RUB 12,267 thousand).

For the year ended 31 December 2015 borrowing costs totalling RUB 114,039 thousand with a capitalisation rate of 12.16% were included in the cost of property, plant and equipment and consisted of interests on loans (2014: RUB 329,307 thousand with a capitalisation rate of 8.87 %).

Depreciation charge on property, plant and equipment in the amount of RUB 763 thousand was capitalised in Construction in progress for the year ended 31 December 2014. For the year ended 31 December 2015 there was no capitalisation of depreciation charge.

Transfer to non-current assets held for sale

For the year ended 31 December 2015 some items of property, plant and equipment in the amount of RUB 1,640 thousand (2014: RUB 197 thousand) were classified as "Non-current assets held for sale" (Note 16).

Determination of recoverable amount of property, plant and equipment

At the end of the reporting period the Group assessed whether there was any indication that a cash-generating unit may be impaired. For those CGUs where such indication exists, the Group performed impairment testing in order to estimate the recoverable amount of the CGU.

As at 31 December 2015 and 31 December 2014 the assessment of property, plant and equipment was performed in order to detect any indications of impairment.

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value. Therefore the value in use for property, plant and equipment as at 31 December 2015 and 31 December 2014 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the use of property, plant and equipment in the business to its ultimate disposal to determine the recoverable amount of the assets.

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

Determination of recoverable amount of the assets of cash-generating units as at 31 December 2015

The following key assumptions were used in determining the recoverable amounts of the assets of cash-generating units as at 31 December 2015:

- cash flows were projected based on Methodical instruction on testing power grid assets for impairment (approved by the order no. 583p of PJSC ROSSETI dated 15 December 2015) and forecast data until 2020;
- forecast cash flows for the period: 2016-2020 (for Dagenergo branch, JSC "Grid Company of Dagestan" and Ingushetia branch); 2016-2022 (for Kabardino-Balkar branch and North Ossetia branch); 2016-2025 (for Karachayevo-Cherkessian branch and Stavropolenergo branch) were identified, based on the best estimate of the PJSC IDGC of Northern Caucasus management in respect of the electricity transmission volumes, operating expenses and capital expenditure, and tariffs approved by regulatory authorities for 2016. The longer forecast period for Kabardino-Balkar branch, North Ossetia branch, and Karachayevo-Cherkessian branch and Stavropolenergo branch was chosen because of the failure to achieve stable cash flows till the end of 2020. The forecast period for these branches was the term beginning from the date of test until the five-year period end, following the last year of approved current period of tariff regulation, or a different number of years in case, when using a different duration would be the best estimate for impairment test purpose.
- forecasted tariffs on electricity transmission for the forecast period were estimated based on business plan, which was based on tariff models using average increase of rate on electricity transmission services (in accordance with forecast on social and economic development for 2016 and planning period of 2017-2018);
- forecasted electricity transmission volumes for all CGUs were determined on the basis of the Company's annual business plans of PJSC IDGC of Northern Caucasus for 2016-2020;
- forecasted cash flows were discounted to their present value at a nominal average cost of capital of 11.31%;
- the growth rate of the net cash flows in the post-forecast period amounted to 2.6% for Dagenergo branch, JSC "Grid Company of Dagestan" and Ingushetia branch; 2.3% for Kabardino-Balkar branch and 2.2% for Karachayevo-Cherkessian branch, North Ossetia branch and Stavropolenergo branch. The difference in the long-term growth rate for the CGU was caused by different length of forecasting period.

As at 31 December 2015 as a result of impairment testing the Group recognized RUB 1,747,893 thousand of

impairment loss on property, plant and equipment of the Ingushetia Republic and the North Ossetia-Alania Republic operating segments (Note 7). Also in 2015 the Group recognized the impairment loss on advances for property, plant and equipment in the amount of RUB 56,887 thousand.

Ingushetia Republic

The most conservative metrics of operating activity for the Ingushetia Republic cash-generating unit were used in forecast and post-forecast periods. However, changes in long-term growth rate, level of investment in forecast and post-forecast periods, ratio of the investment level to the amount of depreciation in forecast and post-forecast periods, necessary gross revenue in each period, nominal weighted average cost of capital, amount of operating expenses would not lead to any reasonable change in impairment losses.

North Ossetia-Alania Republic

The most conservative metrics of investment level for the North Ossetia-Alania Republic cash-generating unit were used in forecast and post-forecast periods. A decrease in investment level of 30 percentage points would lead to an impairment loss of RUB 1,434,170 thousand.

The conservative metric of necessary gross revenue in each period was used in the model. An increase in gross revenue of 5 percentage point would lead to an impairment loss in the amount of RUB 1,075,988 thousand.

The conservative metric of operating expenses amount was used in the model. A decrease in operating expenses amount of 10 percentage points would lead to an impairment loss in the amount of RUB 573,891 thousand.

Changes in the ratio of the investment level to the amount of depreciation in forecast and post-forecast periods, level of investment in forecast and post-forecast periods, discounting rate would not lead to any reasonable change in impairment losses.

Determination of recoverable amount of the assets of cash-generating units as at 31 December 2014.

The following key assumptions were used in determining the recoverable amounts of the assets of cash-generating units as at 31 December 2014:

- cash flows were projected based on Methodical instruction on testing power grid assets for impairment (approved by the order no. 558p of PJSC ROSSETI dated 17 December 2014) and forecast data until 2019;
- forecasted cash flows have been identified for the period 2015-2019 (for all cash-generating units), based on the best estimate of the Group's management in respect of the electricity transmission volumes, operating expenses and capital expenditure, and tariffs approved by regulatory authorities for 2015;
- forecasted tariffs on electricity transmission for the forecast period were estimated based on business plans, adjusted and agreed by PJSC ROSSETI, which were based on tariff models using average increase of rate on electricity transmission services (in accordance with forecast on social and economic development for 2015 and planning period of 2016-2017). Tariff growth rate in 2017-2019 is limited by forecast inflation growth rate of MED (until 2030);
- forecasted electricity transmission volumes for all CGUs were determined on the basis of the Company's annual business plans for 2015-2019;
- forecasted cash flows were discounted to their present value at a nominal average cost of capital of 11.16%;
- the terminal growth rate of the net cash flows was set at 2.6% for each cash-generating unit in the post-forecasted period.

As a result of impairment testing as at 31 December 2014 the Group recognized impairment loss in the amount of RUB 3,034,135 thousand on property, plant and equipment of the Dagestan Republic and the Ingushetia Republic operating segments (Note 7). Also in 2014, the Group recognized an individual impairment loss in the amount of RUB 30,138 thousand on property, plant and equipment and construction in progress and the impairment loss in the amount of RUB 9,830 thousand on advances for property, plant and equipment.

Dagestan Republic

The most conservative metrics of profitability by operating activity for the Dagestan Republic cash-generating unit were used in the model in post-forecast period. If the profitability by operating activity equals 12%, it would have resulted in no impairment.

The conservative metric of long-term growth rate of the net cash flows for post-forecasted period in the amount of 2.6% was used in the model. An increase of 3.3 percentage point (to 5.9%) in the growth rate used would have resulted in no

impairment.

The weighted average amount of revenue collection of 70% was used in the model. An increase of 20 percentage point (to 90%) in the amount used would have resulted in no impairment.

Changes in level of capital expenditures, discounting rate, long-term growth rate and operating expenses amounts within due limits would not have resulted in no impairment.

Ingushetia Republic

The most conservative metrics of profitability by operating activity for the Ingushetia Republic cash-generating unit were used in the model in post-forecasted period. If the profitability by operating activity equals 19%, it would have resulted in no impairment.

The conservative metric of long-term growth rate of the net cash flows for post-forecasted period in the figure of 2.6% was applied in the model. An increase of 5 percentage point (to 7.6%) in the growth rate applied would have resulted in no impairment.

The weighted average amount of revenue collection of 70% was used in the model. An increase of 10 percentage point (to 80%) in the amount used would have caused the decrease in the recognition of impairment loss of RUB 291,901 thousand. In this case the impairment loss of Ingushetia Republic cash-generating unit would be equal RUB 531,785 thousand.

Changing in the level of capital expenditures, the discounting rate, the long-term growth rate and the level of operating expenses within due limits would not lead to any reasonable change in impairment losses.

Note 9. Intangible assets

	Certificates and licences	Software	Research and development	Other	Total
<i>Cost</i>					
Balance at 1 January 2014	199	77,578	23,654	4,640	106,071
Additions	–	45,392	2,600	21,959	69,951
Disposals	–	(40,721)	(23,254)	(487)	(64,462)
Balance at 31 December 2014	199	82,249	3,000	26,112	111,560
Balance at 1 January 2015	199	82,249	3,000	26,112	111,560
Additions	582	53,446	–	58	54,086
Reclassification	–	–	(3,000)	3,000	–
Disposals	–	(21,177)	–	(280)	(21,457)
Disposals due to deconsolidation of subsidiary	(199)	(7,128)	–	(37)	(7,364)
Balance at 31 December 2015	582	107,390	–	28,853	136,825
<i>Amortisation</i>					
Balance at 1 January 2014	(126)	(27,931)	–	(514)	(28,571)
Amortisation charge	(33)	(36,724)	–	(1,054)	(37,811)
Disposals	–	40,721	–	487	41,208
Balance at 31 December 2014	(159)	(23,934)	–	(1,081)	(25,174)
Balance at 1 January 2015	(159)	(23,934)	–	(1,081)	(25,174)
Amortisation charge	(224)	(35,292)	–	(3,759)	(39,275)
Disposals	–	21,177	–	281	21,458
Disposals due to deconsolidation of subsidiary	186	5,882	–	28	6,096
Balance at 31 December 2015	(197)	(32,167)	–	(4,531)	(36,895)
<i>Net book value</i>					
At 1 January 2014	73	49,647	23,654	4,126	77,500
At 31 December 2014	40	58,315	3,000	25,031	86,386
At 31 December 2015	385	75,223	–	24,322	99,930

Amortization charge on intangible assets in the amount of RUB 53 thousand was capitalised in Construction in progress for the year ended 31 December 2014. For the year ended 31 December 2015 there was no capitalization of amortization charge.

Note 10. Deferred tax assets

(a) Deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Property, plant and equipment	785,671	655,567	(25)	(60)	785,646	655,507
Other non-current assets	898	304	(23)	(16,018)	875	(15,714)
Investments	—	—	—	(30)	—	(30)
Inventories	—	439	(4,192)	(4,278)	(4,192)	(3,839)
Trade and other receivables	2,029,782	1,280,703	—	—	2,029,782	1,280,703
Other current assets	389	1,495	—	—	389	1,495
Provisions	19,299	74,399	—	—	19,299	74,399
Employee benefits	—	—	(30,800)	(30,633)	(30,800)	(30,633)
Trade and other payables	8,922	12,636	(80,272)	(89,197)	(71,350)	(76,561)
Finance lease liability	1,582	2,812	—	—	1,582	2,812
Tax loss carry-forwards	253,529	1,363,404	—	—	253,529	1,363,404
Deferred tax assets / (liabilities)	3,100,072	3,391,759	(115,312)	(140,216)	2,984,760	3,251,543
Set-off	(115,312)	(140,216)	115,312	140,216	—	—
Unrecognized deferred tax assets	—	(1,667,138)	—	—	—	(1,667,138)
Net deferred tax assets	2,984,760	1,584,405	—	—	2,984,760	1,584,405

(b) Movement in deferred taxes during the year

	1 January 2015	Recognised in profit or loss	Recognised in equity	Disposal of subsidiary	31 December 2015
Property, plant and equipment	655,507	129,445	—	694	785,646
Other non-current assets	(15,714)	19,537	—	(2,948)	875
Investments	(30)	30	—	—	—
Inventories	(3,839)	579	—	(932)	(4,192)
Trade and other receivables	1,280,703	1,037,249	—	(288,170)	2,029,782
Other current assets	1,495	(1,106)	—	—	389
Provisions	74,399	(3,454)	—	(51,646)	19,299
Employee benefits	(30,633)	446	(613)	—	(30,800)
Trade and other payables	(76,561)	13,321	—	(8,110)	(71,350)
Finance lease liability	2,812	(1,230)	—	—	1,582
Tax loss carry-forwards	1,363,404	469,583	—	(1,579,458)	253,529
Unrecognized deferred tax assets	(1,667,138)	(263,432)	—	1,930,570	—
Net deferred tax assets	1,584,405	1,400,968	(613)	—	2,984,760

	1 January 2014	Recognised in profit or loss	Recognised in equity	31 December 2014
Property, plant and equipment	172,158	483,349	—	655,507
Other non-current assets	5,052	(20,766)	—	(15,714)
Investments	(41)	11	—	(30)
Inventories	2,801	(6,640)	—	(3,839)
Trade and other receivables	1,036,509	244,194	—	1,280,703
Other current assets	—	1,495	—	1,495
Provisions	85,731	(11,332)	—	74,399
Employee benefits	66,508	(65,993)	(31,148)	(30,633)
Trade and other payables	(95,105)	18,544	—	(76,561)
Finance lease liability	—	2,812	—	2,812
Tax loss carry-forwards	1,022,786	340,618	—	1,363,404
Unrecognized deferred tax assets	(1,313,558)	(353,580)	—	(1,667,138)
Net deferred tax assets	982,841	632,712	(31,148)	1,584,405

Management believes that in the future the Company would have enough pre-tax income to utilize the deferred tax assets.

The deductible temporary differences do not expire under current tax legislation. Tax losses could be utilized within 10 years from their origination which expire in 2023-2025.

(c) Unrecognised deferred tax assets

As at 31 December 2014 unrecognised deferred tax assets included RUB 1,362,266 thousands of deferred taxes arising in respect of tax losses carried forward and the deferred tax in the amount of RUB 304,872 thousand on temporary differences arising in respective of a loss-making subsidiary OJSC Dagenergoset. These deferred tax assets were not recognised because the Group thought it would be unlikely to receive adequate taxable profit enabling it to utilize these deferred tax assets.

Deconsolidation of OJSC Dagenergoset (Note 6) led to the derecognition of related deferred tax assets in the Group's consolidated financial statements.

Note 11. Other non-current assets

	31 December 2015	31 December 2014
Assets related to the employee benefits	273,124	274,373
Accounts receivables related with PJSC FGC UES	787,319	787,319
Other	259	97
Total	1,060,702	1,061,789

Assets related to the employee benefits relate to the Group contributions accumulated in "solidary" and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions 80% of contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

Long-term settlements receivable with PJSC FGC UES refers to unsettled payments under the technical scope assignment agreement with PJSC FGC UES. Due to a dispute between the Group and PJSC FGC UES under this agreement, receivables for services provided by the Group and payables (advances received) are presented in the financial statements on a gross basis. Under this agreement, RUB 787,319 thousand of receivables are not set off against advances received until the completion of work and the signing of the delivery and acceptance certificate by PJSC FGC UES. Since no consensus was reached under this agreement (including as at the reporting date) with PJSC FGC UES not confirming any full settlement under the agreement, the Group concluded that receivables should not be set off against payables. The receivables are recorded as long-term receivables within other non-current assets. The payables represent short-term payables, as the contractual obligations were to be performed by 1 January 2015 under the agreement and should be treated as short-term payables until full settlement with PJSC FGC UES (Notes 20, 29).

The Group's exposure to credit and currency risks is disclosed in Note 29.

Note 12. Inventories

	31 December 2015	31 December 2014
Raw materials and consumables	541,094	757,932
Other inventories	—	881
<i>Allowance for obsolescence of inventories</i>	<i>(9,048)</i>	<i>(11,687)</i>
Total	532,046	747,126

Note 13. Trade and other receivables

	31 December 2015	31 December 2014
<i>Non-current accounts receivable and loans issued</i>		
Trade receivables	80,096	98,185
<i>Trade receivables impairment allowance</i>	<i>(1,039)</i>	—
Other receivables	3,707	3,679
Loans issued	—	289,501
Total	82,764	391,365
<i>Current accounts receivable</i>		
Trade receivables	12,870,680	9,956,997
<i>Trade receivables impairment allowance</i>	<i>(10,226,049)</i>	<i>(7,264,666)</i>
Other receivables	391,464	89,550
<i>Other receivables impairment allowance</i>	<i>(205,772)</i>	<i>(45,857)</i>
VAT recoverable	249,712	174,319
Loans issued	314,505	—
Prepaid taxes, other than income tax	37,425	175,843
Total	3,431,965	3,086,186

As at 31 December 2015 allowance for impairment of trade and other receivables included an impairment allowance for doubtful accounts receivables of OJSC Dagenegoset in the amount of RUB 2,089,810 thousand (Note 6, 24).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 29.

Note 14. Prepayments for current assets

	31 December 2015	31 December 2014
Prepayment	27,081	27,703
Prepayment impairment allowance	(10,176)	(9,564)
Total	16,905	18,139

Note 15. Cash and cash equivalents

	31 December 2015	31 January 2014
Cash at bank and in hand	1,603,618	1,858,047
Cash equivalents	890	154
Total	1,604,508	1,858,201

As at 31 December 2015 cash and cash equivalents include balances in the amount of RUB 1,270,000 thousand (31 December 2014: RUB 1,170,294 thousand), which represent minimum required balances on the accounts in order to get additional finance income at interest rates of 6.87-8.08% per annum as at 31 December 2015 and 8.0-21.0% per annum as at 31 December 2014. The requirement to maintain minimum level of cash balances does not restrict the Company's ability to use cash at any time, however, in case of breaking requirement for minimum required balances interest income would not be accrued.

All cash and cash equivalents are denominated in RUB.

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in Note 29.

Note 16. Non-current assets held for sale

For the year ended 31 December 2015 some items of property, plant and equipment in the amount of RUB 1,640 thousand were classified as "Non-current assets held for sale" (2014: RUB 197 thousand). The movement in the non-current assets held for sale during the year was as follows:

	2015	2014
Balance at 1 January	10,539	14,009
Additions	1,640	197
Disposals	(3,596)	(3,667)
Balance at 31 December	8,583	10,539

Note 17. Equity

Share capital

	31 December 2015	31 December 2014
Number of ordinary shares authorised, issued and fully paid (in shares)	154,562,277	154,562,277
Par value (in RUB)	1	1
Total share capital (in RUB)	154,562,277	154,562,277

Dividends paid and declared

The Company's statutory financial statements form the basis for the distribution of profit and other appropriations. Due to differences between statutory accounting principles and IFRS, the Company's profit in the statutory accounts can differ significantly from that reported in the consolidated financial statements prepared under IFRS.

At the annual general meeting of shareholders of PJSC IDGC of Northern Caucasus held on 11 June 2015 the decision was made to declare no dividends on ordinary shares of the Company for the year 2014.

For the year ended 31 December 2015, the Group paid dividends of RUB 57 thousand and income tax related to dividends of RUB 8 thousand. As at 31 December 2015 the Group's dividends payable amounted to RUB 3,725 thousand (as at 31 December 2014: RUB 3,790 thousand).

At the annual general meeting of shareholders of PJSC IDGC of Northern Caucasus held on 24 June 2014 the decision was made to declare dividends of RUB 134,392 thousand (0.8695 RUB per ordinary share) for the year 2013. In the year ended 31 December 2014 the Group paid dividends of RUB 133,669 thousand and income tax related to dividends of RUB 295 thousand.

Profit/(loss) per share

The calculation of profit/(loss) per share is based upon the profit/(loss) for the year and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

<i>In shares</i>	2015	2014
Number of ordinary shares issued as at 1 January	154,562,277	154,562,277
Weighted average number of ordinary shares issued as at 31 December	154,562,277	154,562,277
	Year ended	Year ended
	31 December 2015	31 December 2014
Weighted average number of ordinary shares issued	154,562,277	154,562,277
Profit/(loss) attributable to the shareholders	6,110,665	(8,386,028)
Weighted average profit/(loss) per ordinary share – basic and diluted (in RUB)	39.54	(54.26)

Note 18. Loans and borrowings

Non-current loans and borrowings

	Effective interest rate, %	Currency	Year of maturity	31 December 2015	31 December 2014
Loans					
PJSC Sberbank*	7.90-12.41	RUB	2016-2018	4,852,109	3,015,297
Gazprombank (Joint-stock Company)*	9.00-20.00	RUB	2016-2018	2,499,694	2,499,694
Finance lease liability				7,910	14,062
Total non-current debt				7,359,713	5,529,053
<i>Less current portion of long-term debt and finance lease liability</i>				(3,232,955)	(6,153)
Total				4,126,758	5,522,900

Current borrowings

	Effective interest rate, %	Currency	31 December 2015	31 December 2014
Borrowings				
PJSC ROSSETI**	—	RUB	30,000	30,000
Other			2,000	—
Total borrowings			32,000	30,000
Promissory notes				
PJSC ROSSETI**	—	RUB	1,541,035	1,541,035
PJSC FGC UES**	—	RUB	423,041	451,205
Total promissory notes			1,964,076	1,992,240
<i>Loan interest payables</i>			31,846	26,562
<i>Current portion of long-term debt</i>			3,225,045	—
<i>Current portion of finance lease liability</i>			7,910	6,153
Total			5 260,877	2,054,955

* Loans from government-related entities.

** Borrowings and promissory notes from the parent company and its subsidiary.

For the year ended 31 December 2015 the Company repaid loans in the amount of RUB 864,542 thousand (for the year ended 31 December 2014 there were no repayments of loans and borrowings). The Company raised RUB 1,836,811 thousand using previously opened credit lines and using a new credit line – RUB 864,542 thousands.

All loans and borrowings listed above are bank borrowings with fixed interest rate.

The Group has not entered into any hedging arrangements in respect of its interest rate exposure.

As at 31 December 2015 and 31 December 2014 all loans and borrowings were unsecured.

Financial lease liabilities are payable as follows:

	31 December 2015			31 December 2014		
	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
From 1 to 5 years	—	—	—	9,026	1,117	7,909
Less than 1 year	9,026	1,116	7,910	9,000	2,847	6,153
Total	9,026	1,116	7,910	18,026	3,964	14,062

Note 19. Employee benefits

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan and defined benefit pension plan (Non-State Pension Fund of the Electric Power and Non-State Pension Fund “Professional”);
- defined benefit pension plans and other long-term defined benefit plans regulated by Collective Bargaining Agreements that include lump sum benefit for pensioners upon retirement, benefits paid in connection with the jubilee dates of pensioners and employees, financial support for pensioners and one-time benefits paid in case of the death of pensioners and others.

The amounts of defined benefit liability recognised in the statement of financial position are as follows:

	31 December 2015	31 December 2014
Net post-employment benefits	569,149	562,430
Net other long-term employee benefits	91,727	69,857
Net defined benefit liability	660,876	632,287

Changes in carrying value of assets related to employee benefit fund are set out below.

	For year ended	
	31 December 2015	31 December 2014
Carrying value of assets as at 1 January	274,373	249,075
Return on plan assets	18,158	15,713
Other movements on accounts	185	27,405
Benefits paid	(19,592)	(17,820)
Carrying value of assets as at 31 December	273,124	274,373

The assets related to pension programs and defined benefit are administrated by Non-state Pension Fund, Non-state Pension Fund of the Power Industry and Non-state Pension Fund “Professional”. The assets are not assets of the Fund, because in accordance with the agreements with the Fund the Group is able to use accumulated contributions for the reduction of future contributions or recovery via financing other plans or transfer to another fund at the Group’s own discretion.

	31 December 2015	31 December 2014
Defined benefit liability	(660,876)	(632,287)
Carrying value of assets	273,124	274,373
Net	(387,752)	(357,914)

Movements in net defined benefit liability are as follows:

	For the year ended 31 December 2015		For the year ended 31 December 2014	
	Post- employment benefits	Other long- term employee benefits	Post- employment benefits	Other long- term employee benefits
Benefit liability as at 1 January	562,430	69,857	535,264	46,350
Current service cost	18,776	7,379	37,324	5,453
Past service cost and curtailments	10,249	2,551	1,479	535
Interest expenses on liabilities	61,519	6,926	39,611	2,757
<i>Remeasurement (gain) /loss arising from:</i>				
- changes in demographic actuarial assumptions	(135,691)	134	95,726	1,027
- changes in financial actuarial assumptions	94,087	8,764	(82,148)	(8,324)
- experience adjustments	7,551	8,255	(24,696)	33,953
Benefits paid	(49,772)	(12,139)	(40,130)	(11,894)
	569,149	91,727	562,430	69,857

Expenses recognized in profit or loss for the period are as follows:

	For the year ended	
	31 December 2015	31 December 2014
Service cost	38,955	44,791
Remeasurment of the defined long-term benefit liability	17,153	26,656
Interest expenses	68,445	42,368
Total	124,553	113,815

(Income)/expenses recognized in other comprehensive income for the period are as follows:

	For the year ended	
	31 December 2015	31 December 2014
(Gain)/loss on changes in demographic actuarial assumptions	(135,691)	95,726
Loss/(gain) on changes in financial actuarial assumptions	94,087	(82,148)
(Gain)/loss on experience adjustments	7,551	(24,696)
Total income recognized in other comprehensive income	(34,053)	(11,118)

Movements in remeasurement of liabilities recognized in other comprehensive income for the period are as follows:

	2015	2014
Remeasurement as at 1 January	142,288	153,406
Changes in remeasurement	(34,053)	(11,118)
As at 31 December	108,235	142,288

Principal actuarial assumptions are as follows:

Financial assumptions

	31 December 2015	31 December 2014
Discount rate	9.50%	12.00%
Potential increase in salary and wages	6.00%	7.00%
Inflation rate	6.00%	7.00%

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

- for defined benefit plans including non-state pension provision of employees – 11.33 years;
- other long-term employee benefits – 10.63 years.

Assumptions regarding future mortality were based on published statistics and mortality tables. The Group used mortality table for 2011 adjusted in respect of employees, male and female, by 70% and 40%, respectively. The mortality table for 2011 was applied in respect of males and females a after employment and adjusted by 30% and 5%, respectively.

Demographic assumptions

	31 December 2015	31 December 2014
Expected retirement age (years)		
- males	60	60
- females	55	55
Average employee turnover	7.8%	9.0%

The sensitivity of the defined benefit liability to changes in the weighted principal assumptions is presented below:

	Changes in assumptions	Effects on liability
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 5.54%
Potential increase in salary and wages	Increase/decrease by 0.5%	Increase/decrease by 0.46%
Potential increase in pensions (inflation)	Increase/decrease by 0.5%	Increase/decrease by 5.26%
Employee turnover level	Increase/decrease by 10%	Decrease/increase by 1.32%
Mortality level	Increase/decrease by 10%	Decrease/increase by 2.57%

The above sensitivity analysis was based on the method of each actuarial assumption changes within other actuarial assumptions remaining constant. The valuation method similar to the estimation measurement method of the present value of liabilities (projected unit credit method) was applied to the key actuarial assumptions used in the sensitivity calculation of the present value of liabilities, recognized in the Statement of Financial Position.

For 2016 the expected payment under defined long-term benefit plans is amounted to RUB 54,385 thousand, including:

- defined benefit plans, including non-state pension provision of employees - RUB 42,304 thousand;
- other long-term employee benefits - RUB 12,081 thousand.

Note 20. Trade and other payables

	31 December 2015	31 December 2014
Non-current accounts payable		
Trade payables	470,879	476,365
Total	470,879	476,365
Current accounts payable		
Trade payables	4,773,862	11,854,303
Other payables and accrued expenses	1,250,444	1,188,359
Payables to employees	612,880	606,743
Dividends payable	3,725	3,790
Advances from customers	225,132	258,989
Total	6,866,043	13,912,184

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 29.

Note 21. Other taxes payable

	31 December 2015	31 December 2014
Value added tax payable	328,522	196,965
Payments to social funds	122,727	335,640
Property tax	47,168	36,807
Other taxes	195,234	136,000
Total	693,651	705,412

Note 22. Provisions

	2015	2014
Balance as at 1 January	2,031,806	428,656
Provisions raised during the period	498,999	1,864,358
Provisions used during the period	(1,747,528)	(185,426)
Disposal of provisions due to deconsolidation of subsidiary	(500,721)	–
Provisions decrease due to changes in accounting approaches	(169,493)	(75,782)
Balance as at 31 December	113,063	2,031,806

Provisions relate to legal proceedings and unsettled legal claims against the Group.

A significant increase in the amount of provisions was caused by tax authorities' decisions following tax audit of OJSC Dagernergoset VAT declarations and desk tax audit in 2014. As at 31 December 2014 RUB 1,889,105 thousand was due to OJSC Dagernergoset. For the year 2015 the main part of provisions accrued as at 31 December 2014 were used by OJSC Dagernergoset (in the amount of RUB 1,639,385 thousand), other provisions were excluded due to the deconsolidation of OJSC Dagernergoset (Note 6).

Note 23. Revenue

	Year ended 31 December 2015	Year ended 31 December 2014
Electricity transmission	15,734,295	14,177,236
Connection services	143,952	448,106
Electricity sales	53,225	–
Rental income	14,254	15,450
Other revenue	133,532	122,460
Total	16,079,258	14,763,252

Other revenue is comprised of installation, repair and maintenance services, transportation services and other sales.

From 1 December 2015, pursuant to order of the Russian Ministry of Energy no. 888 of 25 November 2015 PJSC IDGC of Northern Caucasus undertook the function of guaranteeing electricity supplier in Ingushetia Republic (for the period till the winner will be determined but no more than for 12 months). Hence, the Company is involved in a new type of activity - purchasing electricity on the wholesale market and selling it on the retail market.

Note 24. Operating expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Personnel costs (Note 26)	6,055,275	5,234,043
Purchased electricity for compensation of technological losses	5,157,763	4,252,542
Allowance for impairment of trade and other receivables	4,711,630	2,774,027
Impairment loss on property, plant and equipment	1,804,780	3,074,103
Depreciation and amortization	1,487,836	1,558,011
Electricity transmission	1,365,268	1,308,458
Raw materials and supplies	737,621	816,148
Rent	642,123	431,063
Gains/losses of previous years	439,438	565,962
Taxes other than income tax	366,342	167,458
Provisions	329,506	1,788,576
Repairs, maintenance and installation services	242,818	403,145
Electricity and heat power for own needs	224,167	208,010
Maintenance of assets	109,553	115,801
Security services	101,419	113,299
Management services	82,800	81,415
Business trip expenses	55,822	68,319
Purchased electricity and power for sale	48,595	—
Telecommunication and information services	32,767	40,229
Consulting, legal and audit services	28,273	33,394
Social expenditures and charity expenses	17,872	21,551
Other works and production services	6,504	10,046
Transportation	2,074	4,540
Technological connection services	—	29
Other expenses	285,175	258,306
Total	24,335,421	23,328,475

Note 25. Other operating income

	Year ended 31 December 2015	Year ended 31 December 2014
Gain on deconsolidation of subsidiary (Note 6)	13,624,951	—
Fines and penalties	262,643	50,773
Gain on disposal of property, plant and equipment	46,885	1,782
Non-contractual electricity consumption	28,115	24,481
Write-off of accounts payable	13,015	378
Insurance repayments	5,855	10,508
Other income	7,291	2,544
Total	13,988,755	90,466

Note 26. Personnel costs

	Year ended 31 December 2015	Year ended 31 December 2014
Wages and salaries	4,544,439	3,874,764
Payroll taxes	1,348,547	1,144,864
Expenses in respect of defined benefit plan (Note 19)	29,025	38,803
Expenses in respect of other long-term employee benefits (Note 19)	9,930	5,988
Remeasurement of net defined liabilities on other long-term employee benefits, net of deferred tax (Note 19)	17,153	26,656
Other personnel costs	106,181	142,968
Total	6,055,275	5,234,043

Note 27. Finance income and costs

	Year ended 31 December 2015	Year ended 31 December 2014
<i>Finance income</i>		
Interest income on current accounts and loans issued	132,877	121,740
Interest income on assets related to employee benefit obligations	18,158	15,713
Discounting of financial instruments	15,581	16,937
Other finance income	2	–
Total	166,618	154,390
<i>Finance costs</i>		
Interest expenses on financial liabilities measured at amortised cost	728,212	156,885
Interest expense on defined post-employment benefits (Note 19)	61,519	39,611
Unwinding of discount of financial instruments	49,109	40,566
Other defined long-term benefits (Note 19)	6,926	2,757
Interest expense on finance lease	2,847	3,805
Other interest expenses	114	110
Total	848,727	243,734

Note 28. Income tax expense

	Year ended 31 December 2015	Year ended 31 December 2014
<i>Current tax expenses</i>		
Current income tax charge	(43,570)	(262,134)
Over provided in prior years	(297,216)	(192,504)
	(340,786)	(454,638)
<i>Deferred tax income</i>		
Deferred income tax charge	1,400,968	632,711
Total income tax benefit	1,060,182	178,073

The Group's applicable tax rate in 2015 and 2014 is the income tax rate of 20% for Russian companies. This rate has been used in the calculation of deferred tax assets and liabilities.

In accordance with updated tax declarations filed in 2015, income tax overprovided in prior periods (2010-2014 years), amounted to RUB 297,216 thousand.

In 2014, the Group accrued RUB 210,278 thousand of additional income tax fines and penalties following tax field audit in OJSC Dagergoset for 2010-2012.

In accordance with updated tax declarations filed in February 2014 income tax overprovided in prior periods amounted to RUB 263,336 thousand.

Reconciliation of effective tax rate:

	Year ended 31 December 2015	%	Year ended 31 December 2014	%
Profit/(loss) before income tax	5,050,483	100	(8,564,101)	100
Income tax at applicable tax rate	(1,010,097)	(20)	1,712,820	(20)
Tax effect of items which are not deductible or taxable for taxation purposes	2,367,495	35	324,895	(4)
Over provided in prior years	(297,216)	(5)	(192,504)	2
Unrecognized deferred tax assets	–	–	(1 667,138)	19
Total	1,060,182	10	178,073	(2)

Note 29. Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

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

The Group's risk management policies deal with identifying and analyzing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

The Group's Audit Committee oversees how management monitors compliance with the Group's internal control procedures.

(b) Fair value hierarchy

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices from observable current market transactions.

The different levels of analyzing of financial instruments carried at fair value have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

As at 31 December 2015 the Group holds investments in equity shares of RUB 132 thousand classified as available for sale measured at fair value and belong to Level 1 in the fair value hierarchy (as at 31 December 2014: RUB 97 thousand). Valuation of available-for sale investments is made on a recurring basis using quoted market prices.

As at 31 December 2015 the fair value of long-term bank loans and borrowings in the amount of RUB 6,849,178 thousand (as at 31 December 2014: RUB 4,783,347 thousand) was calculated on the base of observable market data (Level 2) using weighted average interest rates on loans to nonfinancial organizations in Russian Roubles over 1 year published by Bank of Russia for December 2015.

(c) Credit risk

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

To manage the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is stipulated by contract and depends on the amount of capacity to be connected. The Group does not require collateral in respect of trade and other receivables.

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

Exposure to credit risk

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

	Carrying amount	
	31 December 2015	31 December 2014
Trade and other receivables <i>(net of allowance for impairment)</i>	2,913,087	2,837,888
Cash and cash equivalents	1,604,508	1,858,201
Loans issued	314,505	289,501
Total	4,832,100	4,985,590

At 31 December 2015 the Group's ten most significant debtors account for RUB 2,088,878 thousand of the trade receivables carrying amount (as at 31 December 2014: RUB 2,544,160 thousand).

The maximum exposure to credit risk for trade receivables at the reporting date by type was:

	31 December 2015	31 December 2014
Electricity transmission	9,719,807	9,094,134
Electricity sales	131,859	–
Connection services	72,231	9,356
Other sales	3,026,879	951,692
<i>Less: Allowance for impairment of accounts receivable</i>	<i>(10,227,088)</i>	<i>(7,264,666)</i>
Total	2,723,688	2,790,516

Impairment losses

The aging of receivables at the reporting date was:

	31 December 2015		31 December 2014	
	Gross	Impairment	Gross	Impairment
Not past due	1,786,785	(61,768)	2,304,385	(199,620)
Past due less than 3 months	1,238,534	(403,138)	1,192,870	(463,930)
Past due more than 3 months and less than 6 months	604,339	(580,022)	451,687	(448,108)
Past due more than 6 months and less than 1 year	2,690,172	(2,688,360)	1,273,482	(1,273,274)
Past due more than 1 year	7,026,117	(6,699,572)	4,925,987	(4,925,591)
Total	13,345,947	(10,432,860)	10,148,411	(7,310,523)

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2015	2014
Balance as at 1 January	(7,310,523)	(4,551,715)
Increase of provision for doubtful debt during the period	(5,266,976)	(2,904,601)
Amounts written off against trade and other receivables	99,176	15,219
Disposal of allowance for impairment due to deconsolidation of subsidiary (Note 6)	1,490,117	–
Decrease due to changes in accounting estimates	555,346	130,574
Balance as at 31 December	(10,432,860)	(7,310,523)

An allowance for impairment of trade and other receivables includes an impairment allowance for doubtful accounts receivables of OJSC Dagenergoset in the amount of RUB 2,089,810 as at 31 December 2015 (Notes 6, 12, 24).

The allowance accounts in respect of trade and other receivables are used to record impairment losses, unless the Group considers that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the corresponding financial asset.

(d) Offsetting of financial assets and financial liabilities

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

	31 December 2015		31 December 2014	
	Trade and other		Trade and other	
	accounts receivable	accounts payable	accounts receivable	accounts payable
Gross amounts	9,091,862	6,609,960	19,102,313	9,797,349
Allowance for doubtful debts	(3,397,458)	—	(3,049,217)	—
<i>Amounts offset in accordance with IAS 32 offsetting criteria</i>	5,321,765	5,321,765	2,779,654	2,779,654
Net amounts presented in the statement of financial position:	372,639	1,288,195	13,273,441	7,017,695
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	242,872	242,872	7,017,695	7,017,695
Net amount	129,767	1,045,323	6,255,746	—

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyse payment dates associated with financial assets, and also to forecast cash flows from operating activities.

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

31 December 2015

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Loans and borrowings	7,415,649	8,482,518	3,830,157	2,554,319	2,098,042	—	—	—
Promissory notes	1,964,076	1,964,076	1,964,076	—	—	—	—	—
Finance lease liability	7,910	9,026	9,026	—	—	—	—	—
Trade and other payables	5,711,591	6,317,310	5,240,712	—	—	—	—	1,076,598
Total	15,099,226	16,772,930	11,043,971	2,554,319	2,098,042	—	—	1,076,598

31 December 2014

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Loans and borrowings	5,571,553	6,557,034	550,061	4,263,354	447,105	1,296,514	—	—
Promissory notes	1,992,240	1,992,240	1,992,240	—	—	—	—	—
Finance lease liability	14,062	18,026	9,000	9,026	—	—	—	—
Trade and other payables	12,735,498	13,335,731	12,259,133	—	—	—	—	1,076,598
Total	20,313,353	21,903,031	14,810,434	4,272,380	447,105	1,296,514	—	1,076,598

Accounts receivable and accounts payable related to the accounting approach to settlements with PJSC FGC UES in the amount of RUB 787,319 thousand (Note 11) are not included in the amounts represented in credit risk and liquidity risk. The Company does not expect any cash inflows and outflows related to these amounts.

(f) Market risk

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

(i) Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates.

The Group operates within the Russian Federation. The major part of the Group's purchases and sales is denominated in RUB. Therefore, the Group's exposure to foreign exchange risk is insignificant.

(ii) Interest rate risk

The Group obtains borrowings mostly at fixed rate and is subject to the limited risk of interest rate changes.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, when making a decision about new loans and borrowings management gives priority to loans and borrowings with fixed rates. As a rule, loan agreements entered into by the Group do not contain any charges for early repayment of loans on borrower's initiative which facilitates additional flexibility in relation to optimizing interest rates in the current economic environment.

The majority of interest rates on long term and short term loans and borrowings are fixed, these are disclosed in Note 18. The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

Fair values sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(g) Fair values

Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximates their carrying value mainly due to fairly short maturity periods.

(h) Capital management

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

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position (guarantees of safe business development etc).

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

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

Note 30. Operating leases

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

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

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

Non-cancellable operating lease rentals are payable as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Less than one year	467,141	159,514
Between one and five years	401,829	382,213
More than five years	522,635	560,819
Total	1,391,605	1,102,546

During the year RUB 642,123 thousand was recognised in the statement of profit or loss and other comprehensive income in respect of operating leases (2014: RUB 431,063 thousand).

Note 31. Commitments

As at 31 December 2015 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 1,109,538 thousand (as at 31 December 2014: RUB 2,715,006 thousand). A significant decrease in commitments in 2015 is related to reduction in the investment plan of the Group due to unfavorable macroeconomic factors.

Note 32. Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

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

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

(c) Legal proceedings

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

(d) Environmental matters

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

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

(e) Disagreements with counterparties

From January 2014 OJSC Dagerengoset participated in the significant legal proceedings with PJSC DPSC due to electricity transmission services payables and compensations for electricity losses payables.

As of 26 October 2015 OJSC Dagerengoset entered in the bankruptcy proceedings and was deconsolidated from the Group (Note 6). Also considering that PJSC DPSC entered in the bankruptcy proceedings in January 2016 the Group's management assumes that the Group has no basis to make any additional adjustments in the consolidated financial statements.

Note 33. Related parties

(a) Control relationships

As at 31 December 2015 and 31 December 2014 PJSC ROSSETI was the Parent company of the Company. The party with ultimate control over the Company is the Russian Government, which holds the majority of the voting rights in PJSC ROSSETI.

The majority of the Group's related party transactions are with the subsidiaries of PJSC ROSSETI and other state controlled entities.

(b) Transactions with the Parent and entities under control of the Parent and balances on settlements

Transactions with the Parent and its subsidiaries were as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Revenue:		
<i>Transactions with the entities under control of the Parent</i>		
Electricity transmission	6,973,866	4,930,869
Connection services	–	1
Rental income	6,483	7,126
Other revenue	93,794	81,757
Interest income on loans issued	25,004	35,382
Expenses:		
<i>Transactions with the Parent</i>		
Management services	76,525	76,525
Services for technical supervision	15,366	9,503
<i>Transactions with the entities under control of the Parent</i>		
Electricity transmission	1,273,604	1,230,632
Purchased electricity for compensation of technological losses	3,212,326	2,553,562
Electricity and heat power for own needs	101,423	68,212
Other expenses	76,649	42,090

All outstanding balances with related parties are to be settled in cash within a year of the statement of financial position date. None of the balances are secured.

Balances of settlements with the Parent and its subsidiaries are presented below:

	31 December 2015	31 December 2014
Trade and other receivables	2,620,415	2,016,536
<i>Allowance for impairment of trade and other receivables</i>	<i>(2,019,734)</i>	<i>(1,482,993)</i>
Loans issued	314,505	289,501
Promissory notes	1,994,076	1,992,763
Advances received	31,312	1,982
Trade and other payables	4,480,684	9,031,028
<i>Discounting of trade accounts payable</i>	<i>(685,655)</i>	<i>(734,565)</i>
Provisions	36,483	269,097

Related party revenue for electricity transmission and connection services is based on the tariffs determined by the Government; other related party transmissions are based on normal market prices.

(c) Relations with the state and regulation of the Group

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for electricity and heat are based on tariffs set by the Federal Antimonopoly Service and by the Executive Bodies of subjects of the Russian Federation in the field of state regulation of tariffs.

Revenues from state-controlled entities for the year ended 31 December 2015 constitute 6 % (2014 – 3%), including 6 % (2014 – 3%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the year ended 31 December 2015 constitute 1 % (2014 – 3%) of total transmission costs.

(d) Transactions with management and close family members

The Group determines the members of the Board of Directors, the Management Board and senior managers of the Company as key management personnel.

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

Salary and bonuses which are paid to members of Board of Directors and Key Management Personnel for performing their job responsibilities consist of wages, non-cash benefits, bonuses calculated on the basis of the results for the period presented in the Company's obligatory financial statements prepared in accordance with Russian accounting principles and payments to social funds.

There are no transactions or balances with key management and close family members except the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries and bonuses	33,584	66,098
Personnel (income)/expenses in respect of post-employment defined benefit plan	(266)	(323)
Interest expenses on other long-term employee benefits	388	313
Remeasurment of net defined liabilities related to other long-term employee benefits recognised in other comprehensive income	(1,252)	(670)

The amounts of key management personnel remuneration disclosed in the table are recognized as expenses related to key management personnel for the current year and presented in personnel costs (Note 26).

As at 31 December 2015 defined benefit liabilities related to post-employment benefits and other long-term employee benefits plans related to key management personnel amounted to RUB 2,104 thousand (31 December 2014: RUB 3,234 thousand).

Note 34. Events after the reporting period

Management believes there are no other facts of economic activities which have or may have an impact on the financial condition, cash flows or results of operations of the Group and that took place in the period between the reporting date and the date of signing the financial statements for the year ended 31 December 2015.