

4.1.2. Production cost and the cost structure

Total actual net cost for 2015 amounted to RUB 35,547 million, which is less than the 2014 level by RUB 4,483 million (11.2%). The decline in the production cost against the previous year was due to the termination of the SLR functions in the regions where the Company operates and therefore a reduction of cost of purchased electricity for sale. However in 2015, the actual primary cost elements showed the following change as compared to the previous year:

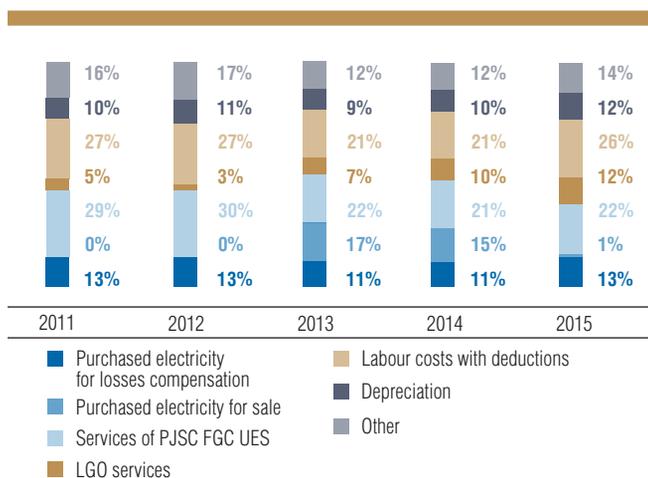
- The growth in cost of LGO services was RUB 246 million. The cost increase is due to the change in the Karelenergo 'uniform (boiler)' tariff settlements scheme and the increase from July 01, 2015 of individual tariffs for settlements between LGOs.
- The cost of purchased energy for losses compensation increased by RUB 288 million. This increase is due to the growth of the average weighted purchase price of electricity to compensate for losses and the volume of losses electricity purchased for compensation of 11% and 3%, respectively, as compared to the previous year.

The basic increase in the purchase price of the losses occurred in the second half of 2015 due to the adoption of the RF Government Decree 'On amendments to certain legislative acts of the RF Government to refine terms and conditions of capacity acquisition on wholesale market for supply to the households and equivalent categories of consumers, and acquisition of capacity

by the organization managing the unified national (Russian) power grid'. In this regard, there was a change of forecast consolidated balances of the FTS Russia as related to the consumption of electricity (capacity) by the household consumers. For this reason, there was an increase in the capacity price in the wholesale electricity and capacity market, which affected the growth of unregulated price.

The growth of variable costs as of year-end 2015 amounted to 6.5% while the actual annual average CPI value was 15.5%, which demonstrates the effectiveness of measures to contain the costs (see more details in section 'Performance management').

PRODUCTION COST STRUCTURE DYNAMIC PATTERN,%



* Including the losses compensation in sales activity