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Consolidated financial statements of

Public Joint Stock Company ROSSETI and its subsidiaries

**prepared in accordance with International Financial Reporting Standards
for the year ended 31 December 2016,**

and independent auditor's report

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05.04.2017
~ Пелл-2047

INDEPENDENT AUDITOR'S REPORT

To: the Shareholders of PJSC "ROSSETI"

Audited entity:

Public Joint-Stock Company "ROSSETI" (abbreviated name - PJSC "ROSSETI").

Location: 4 Belovezhskaya St., Moscow, Russia, 121353;

Primary state registration number – 1087760000019.

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 of auditors Association "Sodruzhestvo" (membership certificate # 6938, ORNZ 11306030308), location: 21, Michurinsky Ave., bldg. 4, Moscow, 119192.

Opinion

We have audited the consolidated financial statements of PJSC "ROSSETI" and its subsidiaries (the "Group"), which comprise the Consolidated Statement of Financial Position as of 31 December 2016, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of property, plant and equipment

In our opinion, this matter was one of most significance in our audit due to a significant share of property, plant and equipment in total assets of the Group, high level of subjectivity of assumptions used to determine the recoverable amount of property, plant and equipment as well as materiality of judgments and estimates made by the management.

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

We have performed procedures of analysis and testing of the model used in making the estimates, assessment of adequacy of assumptions underlying the estimates, including assumptions in respect of projected revenue, tariffs solutions, discount rates etc.

We have also reviewed the relevant controls in respect of the estimates, consideration by management of estimation uncertainty and changes in approaches as compared to the previous period. We have reviewed the actual outcomes of the use of the model to obtain sufficient and appropriate audit evidence about whether the management in making the estimates complied with IFRS requirements, the methods used in estimates of tests are appropriate and are applied consistently and the changes in estimates are reasonable based on information available at the date of preparation of the accounts.

For testing the model of estimate and underlying assumptions, we have engaged an expert in accordance with the procedure established by ISA.

We have evaluated the accuracy and sufficiency of disclosures to the consolidated financial statements of information about determination of the recoverable amount of property, plant and equipment, including information about uncertainties taken into consideration when making the estimates.

Property, plant and equipment is disclosed in Note 14 "Property, plant and equipment" to the consolidated financial statements.

Impairment of accounts receivable

In our opinion, this matter was one of most significance in our audit due to significant balances of accounts receivable as at 31 December 2016. The management estimate of recoverability of accounts receivable is complex, largely subjective and based on the assumptions, in particular, forecasting financial solvency of the Group's counterparties.

We have performed procedures of evaluation of the adequacy of the Group's policy on reviewing accounts receivable and determining if allowance for impairment should be accrued, as well as procedures of confirming the reasonableness of the estimates made by the management of the Group, including specific characteristics of specific clients, their financial solvency, dynamics of collection of accounts receivable, payments and arrangements after the balance-sheet date, as well as review of expected future cash flows.

Accrued allowance for impairment of accounts receivable is disclosed by the Group in Notes 10, 19, 27 to the consolidated financial statements.

Recognition of income from revaluation of available-for-sale financial investments

In our opinion, this matter was one of most significance in our audit of the consolidated financial statements because a significant income from revaluation of available-for-sale financial investments in the amount of RUB 53,040 mln. is recognized in the consolidated financial statements. This income was formed as result of significant growth of quotations of the Group's financial investments in shares of PJSC "Inter RAO".

We have performed procedures of evaluation of completeness and accuracy of recognition of income from revaluation of financial investments in the consolidated financial statements, analyzed if there were fundamental factors of the growth of the market value of shares of PJSC "Inter RAO" and reviewed the completeness of disclosure in the consolidated financial statements.

Information about changes in quotations of shares is provided by the Group in Note 16 to the consolidated financial statements.

Recognition and measurement of revenue

Recognition and measurement of revenue were matters of most significance in our audit due to certain imperfection of mechanisms of operation of retail electricity market and it leads to disagreements between electric grid companies and energy supply companies in respect of volume of electricity consumption and capacity. The assessment by the Group's management of favorable outcome of the dispute resolution is, to a large extent, subjective and is based on the assumptions of dispute resolution.

We evaluated the internal control over revenue recognition, reviewed the accuracy of determined revenue amounts based on concluded contracts for electricity transmission and other work (services), on a sample basis obtained confirmations of accounts receivable balances from the counterparties, reviewed and evaluated existing procedures for confirming the volume of electricity transmitted and outcomes of litigations in respect of disputed amounts for the provided services, and also performed other procedures to obtain sufficient and appropriate audit evidence, in order to confirm the accuracy, in all material respects, of the amounts of revenues recognized in the consolidated financial statements.

Revenue is disclosed in Note 8 to the consolidated financial statements.

Recognition, measurement and disclosure of provisions and contingent liabilities

Recognition, measurement and disclosure of provisions and contingent liabilities in respect of litigations and claims of counterparties (including territorial electric grid companies and energy supply companies) were matters of most significance in our audit because they require a lot of management judgments in respect of significant amounts in dispute in the course of litigations and claim settlements.

The audit procedures included review of court rulings made by courts of different levels, review of adequacy of management judgments and documents confirming the assessment of possibility of outflow of economic resources following dispute resolutions, conformity of the prepared documentation with the existing contracts and compliance with the law.

Accrued provisions and contingent liabilities of the Group are disclosed in Notes 26 and 30 to the consolidated financial statements.

Responsibilities of Management and the Audit Committee of the Board of Directors for the Consolidated Financial Statements

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

In preparing the consolidated financial statement, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the Audit Committee of the Board of Directors all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Management Board Chairperson

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 in the Register of auditors and audit organizations – 217060042

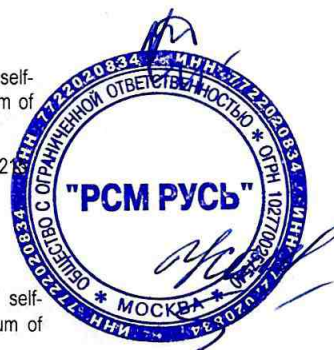
N.A. Dantser

Manager responsible for the audit

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 in the Register of auditors and audit organizations – 21706004441

N.N. Usanova



ROSSETI Group
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2016
(in millions of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	8	903,981	766,812
Operating expenses	10	(788,324)	(652,538)
Other income, net	9	27,800	22,069
Results from operating activities		143,457	136,343
Finance income	12	13,915	16,238
Finance costs	12	(37,187)	(38,865)
Net finance costs		(23,272)	(22,627)
Share of loss of associates and joint ventures (net of income tax)		(343)	(4)
Profit before income tax		119,842	113,712
Income tax expense	13	(21,501)	(32,110)
Profit for the year		98,341	81,602
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in fair value of available-for-sale financial assets	16	53,153	7,825
Allowance for foreign currency translation differences		(204)	(151)
Income tax related to items that may be reclassified subsequently to profit or loss	17	(10,628)	(1,565)
Total items that may be reclassified subsequently to profit or loss		42,321	6,109
<i>Items that will never be reclassified subsequently to profit or loss</i>			
Remeasurements of the defined benefit liability	24	1,936	(5,186)
Income tax related to items that will never be reclassified subsequently to profit or loss	17	(129)	998
Total items that will not be reclassified subsequently to profit or loss		1,807	(4,188)
Other comprehensive income for the year, net of income tax		44,128	1,921
Total comprehensive income for the year		142,469	83,523
Profit attributable to:			
Owners of the Company		74,615	64,036
Non-controlling interest		23,726	17,566
Total comprehensive income attributable to:			
Owners of the Company		109,880	65,917
Non-controlling interest		32,589	17,606
Earnings per share			
Basic and diluted earnings per ordinary share (in RUB)	22	0.39	0.40

These consolidated financial statements were approved by management on 5 April 2017 and were signed on its behalf by:

General Director

O.M. Budargin



Director for accounting
and reporting – Chief Accountant

D.V. Nagovitsyn

ROSSETI Group
Consolidated Statement of Financial Position as at 31 December 2016
(in millions of Russian rubles, unless otherwise stated)

	<u>Notes</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
ASSETS			
Non-current assets			
Property, plant and equipment	14	1,798,568	1,734,044
Intangible assets	15	16,804	18,532
Investments in associates and joint ventures		936	1,489
Non-current accounts receivable	19	51,262	16,572
Other investments and financial assets	16	85,351	31,928
Deferred tax assets	17	7,069	8,579
Total non-current assets		1,959,990	1,811,144
Current assets			
Inventories	18	33,143	33,921
Other investments and financial assets	16	12,620	36,777
Current income tax prepayments		6,339	4,201
Trade and other receivables	19	167,616	162,624
Cash and cash equivalents	20	86,970	97,090
Total current assets		306,688	334,613
Total assets		2,266,678	2,145,757

ROSSETI Group
Consolidated Statement of Financial Position as at 31 December 2016
(in millions of Russian rubles, unless otherwise stated)

	Notes	31 December 2016	31 December 2015
EQUITY AND LIABILITIES			
Equity	21		
Share capital		198,071	163,154
Share premium		212,978	212,978
Treasury shares		(2,702)	(2,713)
Reserve for issue of shares		1,678	33,473
Other reserves		33,165	(2,100)
Retained earnings		521,300	448,120
Total equity attributable to equity holders of the Company		964,490	852,912
Non-controlling interest		340,149	315,983
Total equity		1,304,639	1,168,895
Non-current liabilities			
Loans and borrowings	23	472,057	465,439
Trade and other payables	25	23,698	22,075
Employee benefits	24	28,425	29,473
Deferred tax liabilities	17	66,835	60,155
Total non-current liabilities		591,015	577,142
Current liabilities			
Loans and borrowings	23	86,829	118,832
Trade and other payables	25	261,754	267,972
Provisions	26	14,305	11,421
Current income tax liabilities		8,136	1,495
Total current liabilities		371,024	399,720
Total liabilities		962,039	976,862
Total equity and liabilities		2,266,678	2,145,757

ROSSETI Group
Consolidated Statement of Cash Flows for the year ended 31 December 2016
(in millions of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
OPERATING ACTIVITIES			
Profit for the year		98,341	81,602
<i>Adjustments for:</i>			
Depreciation and amortization of property, plant and equipment and intangible assets	10	113,766	100,529
Impairment of property, plant and equipment	14	38,503	(5,090)
Finance costs	12	37,187	38,865
Finance income	12	(13,915)	(16,238)
Loss on disposal of property, plant and equipment		751	2,773
Share of loss of associates and joint ventures, net of income tax		343	4
Impairment of accounts receivable	10	19,562	28,778
Proceeds from subsidiary disposal	9	(12,318)	(12,410)
Bad debt write-off		387	381
Non-cash receipt of property, plant and equipment		(5,650)	(7,687)
Non-cash settlement of technological connection agreements		(1,973)	(954)
Other non-cash transactions		(2,513)	177
Income tax expense		21,501	32,110
Operating profit before changes in working capital		293,972	242,840
Change in trade and other receivables (before impairment)		(65,734)	(25,118)
Change in inventories (before impairment)		919	(6,414)
Change in trade and other payables		23,842	25,510
Change in employee benefit liabilities		(1,611)	(3,965)
Change in provisions		2,884	(7,136)
Other		(91)	(65)
Cash flows from operating activities before income tax and interest paid		254,181	225,652
Income tax paid		(20,247)	(6,196)
Interest paid		(58,370)	(62,768)
Net cash flows from operating activities		175,564	156,688

ROSSETI Group
Consolidated Statement of Cash Flows for the year ended 31 December 2016
(in millions of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(196,178)	(174,052)
Proceeds from the sale of property, plant and equipment		5,692	2,265
Acquisition of investments and placement of bank deposits		(34,636)	(188,769)
Proceeds from disposal of investments and withdrawal of bank deposits		59,239	169,110
Dividends received		348	44
Interest received		11,603	15,662
Acquisition of subsidiaries		-	1,221
Net cash flows used in investing activities		(153,932)	(174,519)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		302,878	153,716
Repayment of loans and borrowings		(327,288)	(152,154)
Proceeds from share premium		3,122	33,473
Acquisition of non-controlling interest in subsidiaries		-	(413)
Dividends paid		(10,275)	(2,032)
Repayment of finance lease liabilities		(189)	(245)
Net cash flows from financing activities		(31,752)	32,345
Net increase in cash and cash equivalents		(10,120)	14,514
Cash and cash equivalents at the beginning of year		97,090	82,576
Cash and cash equivalents at the end of year	20	86,970	97,090

Attributable to equity holders of the Company

	Share capital	Share premium	Treasury shares	Reserve for issue of shares	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2015	163,154	212,978	(2,725)	-	(3,981)	383,554	752,980	285,824	1,038,804
Profit for the year	-	-	-	-	-	64,036	64,036	17,566	81,602
Other comprehensive income	-	-	-	-	2,409	-	2,409	79	2,488
Related income tax	-	-	-	-	(528)	-	(528)	(39)	(567)
Total comprehensive income for the year	-	-	-	-	1,881	64,036	65,917	17,606	83,523
Transactions with owners of the Company									
Contributions and distributions									
Issue of shares (Note 21)	-	-	-	33,473	-	-	33,473	-	33,473
Disposal of treasury shares (Note 21)	-	-	12	-	-	-	12	-	12
Dividends	-	-	-	-	-	11	11	(2,045)	(2,034)
Effect of employee share options	-	-	-	-	-	1	1	-	1
Total contributions and distributions	-	-	12	33,473	-	12	33,497	(2,045)	31,452
Changes in ownership interests in subsidiaries									
Shares issued by subsidiaries (Note 21)	-	-	-	-	-	159	159	15,079	15,238
Purchase of non-controlling interest in subsidiaries with a change in control	-	-	-	-	-	359	359	(481)	(122)
Total transactions with owners of the Company	-	-	12	33,473	-	530	34,015	12,553	46,568
Balance at 31 December 2015	163,154	212,978	(2,713)	33,473	(2,100)	448,120	852,912	315,983	1,168,895

The accompanying notes are an integral part of these Consolidated Financial Statements

Attributable to equity holders of the Company

	Share capital	Share premium	Treasury shares	Reserve for issue of shares	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2016	163,154	212,978	(2,713)	33,473	(2,100)	448,120	852,912	315,983	1,168,895
Profit for the year	-	-	-	-	-	74,615	74,615	23,726	98,341
Other comprehensive income	-	-	-	-	43,877	-	43,877	11,008	54,885
Related income tax	-	-	-	-	(8,612)	-	(8,612)	(2,145)	(10,757)
Total comprehensive income for the year	-	-	-	-	35,265	74,615	109,880	32,589	142,469
Transactions with owners of the Company									
Contributions and distributions									
Issue of shares (Note 21)	34,917	-	-	(31,795)	-	-	3,122	-	3,122
Disposal of treasury shares (Note 21)	-	-	11	-	-	-	11	-	11
Dividends	-	-	-	-	-	(1,430)	(1,430)	(8,428)	(9,858)
Total contributions and distributions	34,917	-	11	(31,795)	-	(1,430)	1,703	(8,428)	(6,725)
Changes in ownership interests in subsidiaries									
Shares issued by subsidiaries (Note 21)	-	-	-	-	-	(5)	(5)	5	-
Total transactions with owners of the Company	34,917	-	11	(31,795)	-	(1,435)	1,698	(8,423)	(6,725)
Balance at 31 December 2016	198,071	212,978	(2,702)	1,678	33,165	521,300	964,490	340,149	1,304,639

1 Background

(a) The Group and its operation

Joint Stock Company IDGC Holding (hereinafter referred to as “JSC IDGC Holding”) was established on 1 July 2008 in accordance with the resolution of the Extraordinary General Meeting of the Shareholders of the Unified Energy System of Russia (hereinafter referred to as “RAO UES”) dated 26 October 2007, as a spin-off of RAO UES.

At an Extraordinary General Meeting of Shareholders of JSC IDGC Holding on 23 March 2013, the decision was made to amend the Charter of JSC IDGC Holding, under which it was renamed JSC Russian Grids. On 4 April 2013, the respective changes to the Charter of JSC IDGC Holding were registered by the Interregional Inspectorate of the Federal Tax Service No. 46 for the city of Moscow.

Due to changes in the Civil Code of the Russian Federation at the Annual General Shareholders’ Meeting held on 30 June 2015 the changes of organizational and legal form in the Charter of the Company were approved. JSC Russian Grids changed to Public Joint stock company «ROSSETI» (hereinafter referred to as PJSC «ROSSETI» or the “Company”).

The ordinary and preference shares of the Company are traded on the Moscow Exchange. The Company’s GDRs are traded on the London Stock Exchange.

The Company’s registered office is located at 4 Belovezhskaya Street, Moscow, Russia, 121353.

The primary activities of PJSC «ROSSETI» and its subsidiaries (hereinafter referred to as the “Group” or “ROSSETI Group”) are provision of services for transmission and distribution of electricity for power grids, as well as the provision of services for technological connection of consumers to the network. The Group’s power distribution companies sell electricity. The Group’s principal subsidiaries are disclosed in Note 5.

(b) Russian business environment

The Group’s operations are located in the Russian Federation and are thus exposed to the economic and financial markets of the Russian Federation. The Russian Federation continues to display some characteristics of an emergency market. These characteristics include, but are not limited to, existence of a currency that in practice not convertible in most countries outside Russian Federation and relatively high inflation. In addition, the Russian economy is particularly sensitive to world oil prices, therefore significant prolonged decline in world oil prices has a negative impact on the Russian economy. The tax, currency and custom legislation is subject to varying interpretations and frequent changes. Developments in Ukraine during 2014 and 2015 and the subsequent negative reaction of the world community have had and continue to have negative impact on the Russian economy, including difficulties in obtaining international funding, devaluation of national currency and high inflation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

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

1 Background (continued)

(c) Relations with state

The Russian Government, through the Federal Agency for the Management of State Property, is the ultimate controlling party of the Company. The Group is supported by the Russian Government due to its strategic position in the economy of the Russian Federation. The Group's customer base includes a large number of state-controlled entities.

As at 31 December 2016, the Russian Government owned 87.90% in the share capital of the Company, including 88.75% of the voting ordinary shares and 7.01% of the preference shares. As at 31 December 2015, the Russian Government owned 85.31% in the share capital of the Company, including 86.32% of the voting ordinary shares and 7.01% of the preference shares.

The Group's strategic business units (see Note 7) are regional natural monopolies. The Russian Government directly affects the Group's operations through tariffs regulations. In accordance with Russian legislation, the Group's tariffs are regulated by executive authorities of subjects of the Russian Federation in the field of state regulation of tariffs and Federal Antimonopoly Service.

2 Basis of preparation of consolidated financial statements

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the RF ("RAR").

The Group's consolidated financial statements are based on the statutory records with adjustments and reclassifications recorded in the consolidated financial statements for the fair presentation in accordance with IFRS.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except for investments classified as available-for-sale financial assets that have been measured at fair value.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian ruble (RUB), which is the Group'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 million.

2 **Basis of preparation of consolidated financial statements (continued)**

(d) **Use of professional judgments and estimates**

The preparation of consolidated financial statements in conformity with IFRS requires management to make a number of professional judgements, 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 these estimates.

Assumptions and estimates made on their basis are continually evaluated to determine the necessity to change them. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected by these changes.

Professional judgements that have the most significant effect on the amounts recognised in these Consolidated Financial Statements and estimates and assumptions that can require significant adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Deferred tax assets recognition. At every reporting date management assesses the amount of deferred tax assets to be reflected in the consolidated financial statement to the extent in which it is likely to be used as tax allowances. When determining future taxable profit and related tax allowances management uses estimates and assumptions based on prior periods taxable profit and expectations related to the future profit.

Impairment of accounts receivable. Bad debt provision is based on management assumptions of debt recovery made for each debtor individually. Objective indicators of impairment are as follows: default or debtor failure to meet contractual obligations, debt restructuring to the Group under such terms that would have never been taken in regular conditions, signs of possible bankruptcy, unfavourable change in debtors paying capacity.

Impairment of fixed assets. At the end of each reporting period the Group assesses whether there are any indicators that an asset may be impaired. Such indicators include changes in business plans, tariffs and other factors that may lead to unfavourable conditions for the Group's activities.

Deconsolidation of a subsidiary due to loss of control. On 29 June 2016 the Commercial Court of the Republic of Chechnya declared OJSC "Nurenergo", the subsidiary of the Group (100% ownership), bankrupt and appointed an external bankruptcy manager. In accordance with Russian legislation on insolvency (bankruptcy), since the date a debtor is declared bankrupt, the power of all executive bodies of a debtor is terminated and transferred to a bankruptcy manager. Due to this fact the Group lost the right to direct relevant activities of the subsidiary and, therefore, lost control over the entity. As a result the Group derecognized the assets and liabilities of the OJSC "Nurenergo" and recognised gain amounted to RUB 12,669 million in item "Other income, net" of the consolidated statement of profit or loss and other comprehensive income. At the date of disposal, the amount of negative identifiable net assets of the OJSC "Nurenergo" was RUB 15,007 million.

On 27 of January 2017, the North-Caucasian District State Commercial Court (the Court of Cassation) overturned the Court Ruling and sent the case to the Court of First Instance for re-trial. As at 31 December 2016 the Group analysed all the facts and conditions and concluded that the control over the subsidiary was not regained.

2 Basis of preparation of consolidated financial statements (continued)

(e) Implementation of new and revised standards and interpretations

The Group has applied all IFRS standards and its interpretations that affect the Group's operations and came into effect on 1 January 2016. The application of such IFRS standards and interpretations had no material impact on the financial position of the Group.

(f) Change in presentation

Reclassification of comparative information

The Group changed presentation in the comparative financial statements for certain items to comply with the current period presentation. All reclassifications are immaterial.

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 the Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to risks connected to variable returns from its involvement with the entity or has the rights to those returns 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 attributable to the non-controlling interests in a subsidiary are allocated to non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

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

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

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Business combinations (continued)

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

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

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

(iii) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners, and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

(iv) Acquisitions from 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 by the method the predecessor. The assets and liabilities of a business acquired in a common control transaction are recognized at the carrying amounts recognized previously in the consolidated financial statements of the acquired entities. Any cash or other contribution paid for the acquisition is recognized directly in equity.

(v) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment also includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vi) Transactions eliminated on consolidation

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

3 Significant accounting policies (continued)

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date.

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

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments include cash and cash equivalents, investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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 realize the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets

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

The Group derecognizes 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 recognized as a separate asset or liability.

Non-derivative financial assets include : loans and receivables, held for maturity investments, cash and cash equivalents, and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Receivables are presented inclusive of value-added tax.

3 Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) *Non-derivative financial assets (continued)*

Cash and cash equivalents

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

Financial assets held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the effective interest rate, less impairment.

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 previous categories. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(k)(i) and foreign currency differences on available-for-sale debt instruments (see Note 3(b)), are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss for the period. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost less impairment losses.

Available-for-sale financial assets comprise equity securities.

(iii) *Non-derivative financial liabilities*

The Group initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

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

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Other financial liabilities comprise loans and borrowings, finance lease liabilities, trade and other payables.

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

(d) Share capital

Ordinary shares and non-redeemable preference shares are both classified as equity.

3 Significant accounting policies (continued)

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The deemed cost of property, plant and equipment as at 1 January 2007, the date of transition to IFRS, was determined by using its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed (built) assets includes the cost of materials and direct labor, 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 capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net within other income, net in profit or loss for the period.

(ii) Subsequent costs

The cost of replacing part (major component) of an item of property, plant and equipment is recognized 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 derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

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

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

- | | |
|--|------------|
| • Buildings | 7-50 years |
| • Transmission networks | 5-40 years |
| • Equipment for electricity transmission | 5-40 years |
| • Other assets | 1-50 years |

Estimated useful lives and residual values are reviewed at each financial year and adjusted if appropriate.

3 Significant accounting policies (continued)

(f) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates, and joint ventures.

For the measurement of goodwill at initial recognition, see Note 3(a)(ii).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. With respect to associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortization

Amortization expense on intangible assets, other than goodwill is recognized 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:

- Licenses and certificates 1-10 years
- Software 1-15 years

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

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as financial 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 (discounted) 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 recognized in the consolidated statement of the Group's financial position.

3 Significant accounting policies (continued)

(h) Inventories

Inventories are measured at the lower of cost or net realizable 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 realizable value is the estimated selling price in the ordinary course of business of the Group, less the estimated costs of completion and selling expenses.

(i) Advances given

Advances given are classified as non-current if they are connected with the acquisition of an asset which will be classified as non-current upon initial recognition. Advances given for the acquisition of an asset are included in its carrying amount upon the acquisition of control over the asset, and when it is probable that the Group will obtain economic benefit from its usage.

(j) Value-added tax

Output value-added tax (VAT) related to sales is payable to the tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. Amounts of VAT related to advances received and given as well as VAT prepayment are recognized in the consolidated statement of financial position on a net basis and disclosed as an asset within accounts receivable (VAT recoverable). Amounts of VAT to be paid to the tax authorities are presented separately within short-term accounts payable.

Where a provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(k) Impairment

(i) Financial assets

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

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

3 Significant accounting policies (continued)

(k) Impairment (continued)

(i) Financial assets

An impairment loss with respect to a financial asset measured at amortized 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 recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. In the event of any subsequent event that leads to a decrease in the value of the impairment loss, the recovered amount of previously allocated to impairment, loss is recognized in profit or loss for the period.

Impairment losses on available-for-sale financial assets are recognized 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 amortization) and the current fair value (less any impairment loss previously recognized in profit or loss).

Changes in impairment provisions attributable to the 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 recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized 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, the recoverable amount is estimated at each reporting date. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit (CGU) is presented as the greater of its two values: value in use of the asset (this unit) and its fair value less cost 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 groups of CGU. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units which it related to.

The Group's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Costs of 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.

3 Significant accounting policies (continued)

(k) Impairment (continued)

(ii) Non-financial assets

Impairment losses are recognized in profit or loss. Impairment losses recognized with respect to cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the CGU (group of CGU) on a pro rata basis.

An impairment loss with respect to goodwill is not reversed. With respect to other assets, impairment losses recognized 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 amortization) if no impairment loss had been recognized.

(l) 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 (independent) entity and will have no further (legal or constructive) obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State Pension Fund, are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit post-employment plans

A defined benefit plan is a post-employment benefit plan differing from a defined contribution plan. The Group's net obligation with respect to 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. Determined using such method benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

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

3 Significant accounting policies (continued)

(l) Employee benefits (continued)

(ii) *Defined benefit post-employment plans (continued)*

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

(iii) *Other non-current employee benefits*

The Group's net obligation with respect to 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. Remeasurements are recognized 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 recognized 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.

(m) Provisions

A provision is recognized 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 recognized as finance cost.

(n) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

3 Significant accounting policies (continued)

(n) Revenue (continued)

(i) *Electricity distribution and sales of electricity*

Revenue from electricity transmission is recognized based on acts of services rendered. The act is prepared for each counterparty in accordance with the concluded contract on the provision of services based on the meter readings and the “boiler” tariffs. The tariffs for the distribution of electricity (in respect to all subjects the Russian Federation) and sale of electricity on the regulated market (in respect the Russian Federation subjects, not united in the price zones of the wholesale electricity market) are approved by the executive authorities of subjects of the Russian Federation (hereinafter - regional regulatory authority) in the sphere of the state energy tariff regulation within the range of cap and (or) floor tariffs approved by the Federal Antimonopoly Service of the Russian Federation.

Revenue from the sale of electricity is recognized based on:

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

Revenue from the resale of electricity and capacity which is sold under power supply contracts includes the part of revenue related to the transmission of electricity. The tariff for the sale of electricity under power supply contracts is calculated with the transmission fee taken into account.

(ii) *Services for technological connection to electric grids*

Regional regulatory authority approves payment for technological connection according to individual project, as well as standardized tariff rates and rates per unit of maximum supplied power on the basis of which the territorial network organization calculates the fee for technological connection to electric networks.

Payment for technological connection to the unified national electric network is approved by the Federal Antimonopoly Service.

Revenue from technological connection to power grids is calculated on the basis of the size of payment for technological connection determined in accordance with the legislation of the Russian Federation in the electricity sector.

Revenue for technological connection to the power network is recognized on the basis of the acts of acceptance of technological connection. In cases where under the terms of the contracts technological connection to power grids is performed in stages, revenue is recognized upon completion of stages of services.

(iii) *Other revenue*

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.

3 Significant accounting policies (continued)

(o) Government subsidies

Government grants are recognized where there is reasonable assurance that the grant will be received and all the attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

Government subsidies that compensate the Group for low electricity tariffs (lost income) are recognized in profit or loss in the same periods in which the respective revenue is earned.

(p) Other expenses

(i) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

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

Determining whether an arrangement contains a lease

At the inception of an arrangement, the Group determines whether such an arrangement is or contains indicators of a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other considerations required by such an arrangement into those for the lease and those for other elements proportionately to their fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset contract. Subsequently the liability is reduced as payments are made and an imputed finance expense is recognized.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large without creating constructive obligations to provide such benefit in the future and are not restricted to the Group's employees, they are recognized in the income statements as incurred. Group costs related to the financing of social programs, without making a commitment with respect to such financing in the future date are recognized in consolidated statement of profit or loss and other comprehensive income as they arise.

3 Significant accounting policies (continued)

(q) Finance income and costs

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

Finance costs are comprised of interest expense on borrowings, financial leasing, foreign currency losses, discounts on financial instruments and impairment losses recognized 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 recognized 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 costs, depending on whether foreign currency movements are in a net gain or net loss position.

(r) Income tax expense

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

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 with respect to previous years.

Deferred tax is recognized with respect to 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 recognized for:

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

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

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

3 Significant accounting policies (continued)

(r) Income tax expense (continued)

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group accrues tax liabilities for open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions, and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

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

A deferred tax asset is recognized 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 utilized. 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 realized.

(s) 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. Profit attributable to ordinary shareholders is calculated by adjusting profit attributable to owners of the Company by profit attributable to holders of preference shares.

(t) Segment reporting

The Group determines and presents operating segments based on internal information provided to the Management Board of the Company, which is the Group's chief operating decision-making body.

An operating segment is a component of the Group that engages in business activities and 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. The operating results of operating segments for which discrete financial information is available are reviewed regularly by the Management Board so that it can make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly parent company revenue, expenses, assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Inter-segment pricing is determined on general commercial terms.

3 Significant accounting policies (continued)

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2016, and have not been applied in preparing Consolidated Financial Statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group is currently assessing the impact of the new Standards, amendments to Standards and Interpretations on its consolidated financial statements.

- In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments". The final version of IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.
- IFRS 15 "Revenue from Contracts with Customers" was issued in May 2014. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Under IFRS 15. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services. Either a full retrospective application or modified retrospective applications is required for annual periods beginning on or after 1 January 2018. Early adaptation is permitted.
- IFRS 16 "Leases" is effective for annual reporting periods beginning on or after 1 January 2019, earlier application is permitted if IFRS 15 "Revenue from Contracts with Customers" is also adopted. IFRS 16 replaces the existing lease accounting guidance in IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The new standard eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases (this model requires a lease to finance lease classification shown on the balance sheet and operating leases are accounted for off-balance). There is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.
- Amendments to IAS 7, Statement of Cash Flows (issued in January 2016 and effective for annual periods on or after 1 January 2017, early adaptation is permitted). The amended IAS 7 will require disclosure of reconciliation of movements in liabilities arising from financial activities. On initial applications of the amendments, entities are not required to provide comparative information.

3 Significant accounting policies (continued)

(u) New Standards and Interpretations not yet adopted (continued)

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- Recognition of Deferred Tax Assets for unrealized loss (Amendment to IAS 12)
- Classification and Measurement of Share –based Payment transactions (Amendments to IFRS 2)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
- Transfers of Investment Property (Amendments to IAS 40)
- Foreign Currency Transactions and Advance Consideration (IFRIC 22 Interpretation)

4 Measurement of fair values

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

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

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

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

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

Further information about the assumptions made in measuring fair values is included in Note 27.

5 Significant subsidiaries

		31 December 2016	31 December 2015
	Country of incorporation	Ownership/voting, %	Ownership/voting, %
PJSC FGC UES	Russian Federation	80.13	80.15
PJSC MOESK	Russian Federation	50.90	50.90
JSC Tyumenenergo	Russian Federation	100.00	100.00
PJSC Lenenergo	Russian Federation	68.10/69.17	68.01/68.75
PJSC IDGC of Centre	Russian Federation	50.23	50.23
JSC IDGC of Urals	Russian Federation	51.52	51.52
PJSC IDGC of Centre and Volga region	Russian Federation	50.40	50.40
PJSC Kubanenergo	Russian Federation	92.24	92.24
PJSC IDGC of Siberia	Russian Federation	57.84/55.59	55.59
PJSC IDGC of Volga	Russian Federation	68.89	67.75
PJSC IDGC of North-West	Russian Federation	55.38	55.38
PJSC IDGC of North Caucasus	Russian Federation	93.20	93.20
JSC Chechenenergo	Russian Federation	72.66	72.66
PJSC IDGC of South	Russian Federation	53.01	51.66
PJSC TDC	Russian Federation	85.77/94.58	85.77/94.58
JSC Yantarenergo	Russian Federation	100.00	100.00
JSC Karachaevo-Cherkesskenenergo	Russian Federation	100.00	100.00
JSC Kalmenergosbyt	Russian Federation	100.00	100.00
JSC Kabbalkenergo	Russian Federation	65.27	65.27
JSC Tyvaenergosbyt	Russian Federation	100.00	100.00
JSC Sevkavkazenergo	Russian Federation	55.94	55.94
PJSC Dagestan Power Sales Company	Russian Federation	51.00	51.00

6 Non-controlling interests

The following table summarizes the information relating to each of the Group's subsidiaries that has material non-controlling interest, before any intra-group eliminations.

31 December 2016 and for the year then ended

RUB mln.	FGC	MOESK	Lenenergo	IDGC of Centre	IDGC of Urals	IDGC of Centre and Volga region	IDGC of Siberia	Other individually immaterial subsidiaries	Total
Non-controlling percentage	19,87	49,10	31,90	49,77	48,48	49,60	42,16		
Non-current assets	974,745	312,445	159,394	87,016	62,352	62,522	38,688		
Current assets	127,456	28,406	21,245	20,027	12,688	16,798	20,191		
Non-current liabilities	(269,648)	(94,255)	(32,551)	(46,958)	(19,121)	(25,927)	(18,967)		
Current liabilities	(100,343)	(72,053)	(43,812)	(16,847)	(14,209)	(16,331)	(25,293)		
Net assets	732,210	174,543	104,276	43,238	41,710	37,062	14,619		
Carrying amount of non-controlling interest	145,934	86,297	35,203	21,639	20,782	18,727	6,194	5,373	340,149
Revenue	254,857	143,354	65,502	86,295	74,726	78,664	48,407		
Profit	69,376	9,161	12,221	4,720	1,359	3,632	336		
Other comprehensive income/(loss)	43,932	312	28	56	(153)	32	140		
Total comprehensive income/(loss)	113,308	9,473	12,249	4,776	1,206	3,664	476		
Profit/(loss) allocated to non-controlling interest	13,714	4,497	3,692	2,349	659	1,802	3	(2,990)	23,726
Other comprehensive income/(loss) allocated to non-controlling interest	8,669	125	7	26	(60)	13	61	22	8,863
Cash flows from operating activities	111,476	27,780	8,235	14,702	8,923	8,148	(507)		
Cash flows used in investment activities	(37,958)	(30,515)	(16,746)	(12,801)	(6,734)	(7,405)	(4,174)		
Cash flows from financing activities:	(57,290)	3,119	(7,268)	543	(5,209)	(1,263)	4,322		
- including dividends to non-controlling shareholders	(3,147)	(3,102)	(514)	(218)	(622)	(458)	(4)		
Net increase/ (decrease) in cash and cash equivalents	16,228	384	(15,779)	2,444	(3,020)	(520)	(359)		

6 Non-controlling interests (continued)

31 December 2015 and for the year then ended

RUB mln.	FGC	MOESK	Lenenergo	IDGC of Centre	IDGC of Urals	IDGC of Centre and Volga region	IDGC of Siberia	Other individually immaterial subsidiaries	Total
Non-controlling percentage	19.85	49.10	31.99	49.77	48.48	49.60	44.41		
Non-current assets	874,128	299,225	138,451	80,175	62,652	60,656	35,054		
Current assets	140,506	28,984	41,970	20,274	15,204	17,620	18,113		
Non-current liabilities	(275,499)	(95,001)	(36,179)	(48,352)	(14,118)	(22,186)	(12,141)		
Current liabilities	(103,674)	(61,763)	(52,418)	(13,224)	(21,971)	(21,750)	(26,881)		
Net assets	635,461	171,445	91,824	38,873	41,767	34,340	14,145		10,225
Carrying amount of non-controlling interest	126,101	84,776	31,427	19,347	20,838	17,033	6,236		315,983
Revenue	195,308	132,356	45,016	80,830	69,672	69,087	44,716		
Profit	58,353	12,313	2,934	840	1,620	3,461	72		
Other comprehensive income/(loss)	3,613	(248)	76	(97)	(249)	(570)	(55)		
Total comprehensive income/(loss)	61,966	12,065	3,010	743	1,371	2,891	17		
Profit/(loss) allocated to non-controlling interest	12,271	6,045	995	418	786	1,717	32	(4,698)	17,566
Other comprehensive income/(loss) allocated to non-controlling interest	29	(122)	25	(48)	(121)	(283)	(25)	585	40
Cash flows from operating activities	98,023	26,697	13,671	9,090	8,562	5,141	3,648		
Cash flows used in investment activities	(97,242)	(28,174)	(10,336)	(13,243)	(7,336)	(2,832)	(5,249)		
Cash flows from financing activities:	(14,673)	(2,427)	21,299	3,881	(600)	(2,379)	417		
- including dividends to non-controlling shareholders	(164)	(1,009)	-	(407)	(258)	(169)	(12)		
Net increase/ (decrease) in cash and cash equivalents	(13,892)	(3,904)	24,634	(272)	626	(70)	(1,184)		

7 Information about segments

The Group has fourteen reportable segments, as described below, which are the Group's strategic business units. Each strategic business unit offers electricity transmission services, including technological connection services, in a separate geographical region of the Russian Federation and is managed separately.

The "other" segment includes several operating segments such as electricity sales, rent services and repair services. Unallocated items are comprised mainly of assets and account balances related to the Company's headquarters, which exercises management activity.

The Management Board of the Company assesses the performance, assets and liabilities of operating segments based on internal management accounting, which is based on the information reported in statutory accounts. Performance of each reportable segment is measured based on earnings or loss before interest expense, income tax and depreciation and amortization (EBITDA). Management believes that EBITDA is the most relevant measurement for evaluating the results of the Group's operating segments.

The reconciliation of reportable segment measurements with similar items in these consolidated financial statements includes those reclassifications and adjustments that are necessary for the financial statements to be presented in accordance with IFRS.

Information regarding reportable segments is included below.

7 Information about segments (continued)

(i) Information about reportable segments

As at 31 December 2016 and for the year ended 31 December 2016:

	IDGC Siberia and Tomskaya DC	IDGC Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	IDGC Kubanener go	IDGC Caucasus North	IDGC Privolzhye Centre and North-West	IDGC Lenenergo	Yantar- energo	IDGC Centre	MOESK	FGC	Other	Total
Revenue from external customers	53,446	57,381	58,825	53,210	30,925	41,723	11,177	78,451	39,139	61,126	86,087	139,849	85,332	109,922	908,023
Inter-segment revenue	245	9	6,628	2	489	4	4,524	30	3,294	134	23	11	133,034	37,436	189,755
Segment revenue	53,691	57,390	65,453	53,212	31,414	41,727	15,701	78,481	42,433	61,260	86,110	139,860	218,366	147,358	1,097,778
Including															
Electricity transmission	52,504	56,773	63,703	52,688	30,768	39,262	14,081	77,387	40,583	54,437	83,590	128,642	171,133	17,659	887,725
Connection services	721	409	1,336	323	470	2,381	128	860	1,123	6,485	1,411	10,012	45,479	2,954	74,761
Resale of electricity	-	-	-	-	-	-	667	-	-	-	52	-	-	72,026	72,745
Other revenue	466	208	414	201	176	84	825	234	727	338	1,057	1,206	1,754	54,719	62,547
Finance income	175	771	472	136	99	90	137	159	65	1,846	264	329	8,068	664	13,314
Finance costs	(1,849)	(43)	(969)	(1,046)	(2,769)	(1,889)	(873)	(2,332)	(1,622)	(1,730)	(4,508)	(5,708)	(6,231)	(1,911)	(33,971)
Depreciation	5,043	7,885	4,670	5,432	2,601	3,624	2,169	6,465	4,252	9,868	9,848	24,454	81,492	5,616	173,858
EBITDA	5,559	11,561	10,447	9,820	4,428	9,019	1,718	13,344	6,619	21,812	16,865	37,380	212,042	16,377	378,446
Segment assets	75,828	143,406	64,960	63,070	44,818	67,288	35,640	91,983	58,292	188,652	122,663	341,610	1,366,174	170,029	2,848,514
Including property, plant and equipment and construction in progress	52,093	134,916	50,641	51,013	28,564	55,911	23,857	73,529	40,731	147,487	98,425	298,295	1,107,632	76,524	2,249,077
Capital expenditure	7,412	7,527	5,902	3,173	2,550	5,448	1,106	7,928	4,372	24,990	13,331	32,287	104,735	13,166	236,282
Segment liabilities	43,828	19,504	27,799	18,275	40,893	31,890	19,959	39,522	30,636	67,586	64,931	150,845	379,173	155,136	1,098,321

7 Information about segments (continued)

(i) Information about reportable segments (continued)

As at 31 December 2015 and for the year ended 31 December 2015:

	IDGC Siberia and Toms kaya DC	IDGC Tyumen-energo	IDGC Urals	IDGC Volga	IDGC South	IDGC Kubanen ergo	IDGC North Caucasus	IDGC Centre and Privolzh ye	IDGC North-West Lenenergo	Yantar-energo	IDGC Centre	MOESK	FGC	Other	Total
Revenue from external customers	48,596	53,503	54,624	47,856	29,904	35,699	8,825	68,834	36,380	43,609	79,777	129,272	43,393	71,302	752,547
Inter-segment revenue	37	8	5,912	4	461	5	5,724	50	3,243	118	40	16	129,873	28,570	177,488
Segment revenue	48,633	53,511	60,536	47,860	30,365	35,704	14,549	68,884	39,623	43,727	79,817	129,288	173,266	99,872	930,035
Including															
Electricity transmission	47,365	52,871	58,227	47,308	29,675	34,403	13,566	67,938	36,881	40,684	77,734	117,683	158,986	9,734	797,042
Connection services	1,015	412	1,862	348	500	1,213	142	692	804	2,865	1,160	10,302	12,397	1,468	35,467
Resale of electricity	-	-	-	-	-	-	53	-	946	-	-	-	-	62,444	63,443
Other revenue	253	228	447	204	190	88	788	254	992	178	923	1,303	1,883	26,226	34,083
Finance income	180	1,206	452	111	75	479	138	407	198	1,006	7	935	8,312	541	14,332
Finance costs	(1,279)	-	(870)	(1,233)	(2,559)	(2,261)	(651)	(2,346)	(1,800)	(3,778)	(4,195)	(4,787)	(8,464)	(1,344)	(35,946)
Depreciation	4,881	7,077	4,378	5,708	2,724	3,208	2,011	6,264	4,176	10,060	9,059	23,807	77,217	3,908	164,878
EBITDA	6,934	12,270	8,453	7,676	5,774	7,685	(436)	10,493	6,856	7,310	15,219	41,955	113,565	(3,943)	240,146
Segment assets	73,311	141,777	65,586	63,942	43,012	64,318	33,490	91,263	59,607	194,683	117,869	332,750	1,268,301	153,313	2,712,914
Including property, plant and equipment and construction in progress	51,320	127,775	50,038	53,274	28,897	53,710	24,955	72,258	40,832	134,607	95,289	288,332	1,083,487	76,699	2,187,847
Capital expenditure	6,195	9,376	6,176	2,521	1,792	8,094	1,285	5,173	4,117	6,951	12,935	36,295	75,483	2,865	180,591
Segment liabilities	39,388	24,037	30,494	20,952	37,739	31,988	18,220	40,967	32,000	81,347	61,556	141,761	382,915	160,254	1,111,176

7 Information about segments (continued)

(ii) Major customer

In 2016, the Inter RAO Group (consisting primarily of electricity sales companies within the Inter RAO Group) was a major customer of the Group. Total revenues from companies of Inter RAO Group amounted to RUB 196,836 million for the year ended 31 December 2016 (RUB 189,995 million for the year ended 31 December 2015).

(iii) Reconciliations of reportable segment revenues, EBITDA and assets and liabilities

The reconciliation of key segment items measured as reported to the Management Board of the Group with similar items in these consolidated financial statements is presented below.

The reconciliation of segment revenue is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Segment revenues	1,097,778	930,035
Intersegment revenue elimination	(189,755)	(177,488)
Reclassification from other income	3,108	14,817
Other adjustments	(7,154)	(556)
Unallocated revenues	4	4
Revenues per consolidated statement of profit or loss and other comprehensive income	903,981	766,812

7 Information about segments (continued)

(iii) Reconciliations of reportable segment revenues, EBITDA and assets and liabilities (continued)

Reconciliation of reportable segment EBITDA is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
EBITDA of reportable segments	378,446	240,146
Adjustment for disposal of property, plant and equipment	(116)	73
Adjustment for inventories valuation	(44)	(11)
Discounting of financial instruments	(2,293)	(262)
Adjustment for receivables' impairment allowance	(3,382)	(7,118)
Adjustment for finance lease	296	462
Impairment of property, plant and equipment	(37,627)	4,484
Accrued salaries and wages to employees	(66)	(17)
Employee benefit obligations recognition	(888)	1,225
Adjustment on assets related to employee benefit obligations	91	64
Provisions	(2,210)	892
Adjustment for deferred expenses	(540)	(418)
Adjustment of available-for-sale financial assets	134	22
Re-measurement of available-for-sale investments	(53,153)	(7,825)
Adjustment of impairment of intercompany promissory notes	(13,233)	(2,137)
Other adjustments	(2,699)	17,751
Unallocated items	2,516	1,611
	265,232	248,942
Depreciation and amortization	(113,766)	(100,529)
Interest expenses on financial liabilities	(31,494)	(34,607)
Interest expenses on finance lease liabilities	(130)	(94)
Income tax expense	(21,501)	(32,110)
Profit for the year per consolidated statement of profit or loss and other comprehensive income	98,341	81,602

7 Information about segments (continued)

(iii) Reconciliations of reportable segment revenues, EBITDA and assets and liabilities (continued)

The reconciliation of reportable segment total assets is presented below:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Total segment assets	2,848,514	2,712,914
Intersegment balances	(169,498)	(165,727)
Intersegment investments	(50,677)	(50,194)
Trade and other receivables and payables offsetting	-	(10,532)
Adjustment for net book value of property, plant and equipment	(122,702)	(153,331)
Impairment of property, plant and equipment	(329,570)	(299,525)
Assets related to employee benefits	6,708	6,617
Investments in associates and joint ventures	201	749
Adjustment for allowance for impairment of account receivables	14,674	21,470
Inventories write-off	(92)	(106)
Adjustment for deferred tax	(11,066)	(11,296)
Advances given	(2,325)	(2,517)
Other adjustments	7,326	39,892
Unallocated items	75,185	57,343
Total assets per consolidated statement of financial position	<u>2,266,678</u>	<u>2,145,757</u>

The reconciliation of reportable segment total liabilities is presented below:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Total segment liabilities	1,098,321	1,111,176
Intersegment balances	(168,837)	(164,998)
Trade and other receivables and payables offsetting	-	(10,532)
Adjustment for deferred tax	(28,234)	(27,939)
Employee benefit obligations	28,425	29,473
Finance lease liabilities	997	727
Accrued salaries and wages to employees	231	172
Other provisions and accruals	3,519	1,552
Other adjustments	(7,007)	1,685
Unallocated items	34,624	35,546
Total liabilities per consolidated statement of financial position	<u>962,039</u>	<u>976,862</u>

8 Revenue

	Year ended 31 December 2016	Year ended 31 December 2015
Electricity transmission	725,427	650,376
Technological connection services	68,118	34,165
Sales of electricity and capacity	74,715	55,913
Other revenue	35,673	25,354
	903,933	765,808
Government subsidies	48	1,004
	903,981	766,812

Other revenue is comprised of electricity transmission assets rental income, repair and maintenance services, construction services, etc.

9 Other income, net

	Year ended 31 December 2016	Year ended 31 December 2015
Income from identified non-contracted electricity consumption	2,140	1,744
Income in the form of fines on commercial contracts	8,586	5,617
Gain on deconsolidation of subsidiaries	12,318	12,410
Net other income/expense	4,756	2,298
	27,800	22,069

For the year ended 31 December 2016 the gain on deconsolidation of subsidiaries includes gain on deconsolidation of OJSC Nurenergo in the amount of RUB 12,669 million (Note 2d).

For the year ended 31 December 2015 the Group recognized income from the deconsolidation of OJSC Dagenergoset in the amount of RUB 12,504 million due to loss of control in the net other income and accrued impairment of accounts receivable of OJSC Dagenergoset in the amount of RUB 13 604 million (Note 10).

Net other income/expense includes profit/loss on insurance reimbursement, on disposal of fixed assets and other items.

10 Operating expenses

	<u>Year ended 31 December 2016</u>	<u>Year ended 31 December 2015</u>
Personnel costs (Note 11)	173,615	162,911
Depreciation and amortization (Notes 14, 15)	113,766	100,529
Impairment/(reversal of impairment) of property, plant and equipment (Note 14)	38,503	(5,090)
<i>Material expenses, including:</i>		
Electricity for compensation of losses	111,543	101,199
Electricity for sale	46,023	31,234
Purchased electricity and heat power for own needs	4,003	3,539
Other material costs	40,867	26,586
<i>Production work and services, including:</i>		
Electricity transmission services	130,997	119,341
Repair and maintenance services	11,764	11,878
Other works and industrial services	16,860	10,449
Taxes and levies other than income tax	20,755	17,637
Rent	7,514	6,702
Insurance	2,154	2,302
<i>Other third-party services, including:</i>		
Communication services	2,832	2,978
Security services	4,482	4,498
Consulting, legal and audit services	2,307	2,287
Software costs and servicing	3,023	2,654
Transportation services	2,578	2,782
Other services	7,973	7,385
Impairment of receivables	19,562	28,778
Provisions (Note 26)	9,575	3,902
Other expenses	17,628	8,057
	<u>788,324</u>	<u>652,538</u>

11 Personnel costs

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries	129,813	123,639
Social security contributions	37,054	35,209
(Gains)/expenses related to defined benefit plan	1,456	(1,305)
Expenses/(gains) related to other long-term employee benefits	(74)	226
Other	5,366	5,142
	173,615	162,911

The amount of contributions to the defined contribution plan was RUB 26,532 million for the year ended 31 December 2016 (for the year ended 31 December 2015: RUB 24,869 million).

12 Finance income and costs

<i>Recognized in profit or loss</i>	Year ended 31 December 2016	Year ended 31 December 2015
<i>Finance income</i>		
Interest income on loans, bank deposits and promissory notes	12,943	15,440
Gain on disposal of financial assets	-	22
Other finance income	972	776
	13,915	16,238
<i>Finance costs</i>		
Interest expenses on financial liabilities measured at amortized cost	(31,494)	(34,607)
Interest expenses on finance lease liabilities	(130)	(94)
Impairment loss on available-for-sale and held-to-maturity financial assets	(25)	(450)
Loss on disposal of financial assets	(95)	-
Other finance costs	(5,443)	(3,714)
	(37,187)	(38,865)

13 Income tax

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax		
Current year	(25,481)	(9,167)
Adjustments for prior years	1,800	2,987
	(23,681)	(6,180)
Deferred income tax		
Origination and reversal of temporary differences	1,614	(23,271)
Change in tax base of property, plant and equipment	566	(2,659)
	2,180	(25,930)
	(21,501)	(32,110)

The Group's applicable tax rate in 2016 and 2015 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 2016 and 2015, some Group companies recalculated income tax for prior periods related to the deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment and accelerated tax depreciation of property, plant and equipment operated in an aggressive environment. As a result, adjusted tax declarations were submitted to the tax authorities and income tax overprovided in prior periods was recognized.

Income tax recognized in other comprehensive income

	Year ended 31 December 2016			Year ended 31 December 2015		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Available-for-sale financial assets	53,153	(10,628)	42,525	7,825	(1,565)	6,260
Foreign currency translation differences	(204)	-	(204)	(151)	-	(151)
Remeasurements of the defined benefit liability	1,936	(129)	1,807	(5,186)	998	(4,188)
	54,885	(10,757)	44,128	2,488	(567)	1,921

Reconciliation of the effective tax rate

	Year ended 31 December 2016	%	Year ended 31 December 2015	%
Profit/(loss) before income tax	119,842		113,712	
Income tax at the applicable tax rate	(23,968)	(20)	(22,742)	(20)
Effect of income taxed at lower rates	1,539	1	96	-
Non-deductible expenses	(2,680)	(2)	(5,698)	(5)
Change in tax base of property, plant and equipment	566	-	(2,659)	(2)
Adjustments for prior years	1,800	2	2,987	3
Unrecognized deferred tax assets	1,242	1	(4,094)	(4)
	(21,501)	(18)	(32,110)	(28)

14 Property, plant and equipment

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
<i>Cost/Deemed cost</i>						
At 1 January 2015	220,258	1,043,536	802,014	246,497	390,399	2,702,704
Reclassification between groups	1,418	(1,102)	1,499	(1,815)	-	-
Additions	1,013	2,771	951	4,627	173,112	182,474
Additions on acquisition of subsidiaries	213	6,032	2,358	548	1,483	10,634
Transfer	15,832	89,194	81,417	19,100	(205,543)	-
Disposals	(1,086)	(1,875)	(3,120)	(2,277)	(6,844)	(15,202)
At 31 December 2015	237,648	1,138,556	885,119	266,680	352,607	2,880,610
At 1 January 2016	237,648	1,138,556	885,119	266,680	352,607	2,880,610
Reclassification between groups	68	40	(205)	97	-	-
Additions	954	5,054	2,259	6,036	205,837	220,140
Transfer	16,956	70,594	95,725	17,848	(201,123)	-
Disposals	(1,088)	(1,433)	(2,299)	(3,333)	(4,588)	(12,741)
At 31 December 2016	254,538	1,212,811	980,599	287,328	352,733	3,088,009
<i>Depreciation and impairment</i>						
At 1 January 2015	(60,186)	(434,396)	(353,125)	(133,369)	(78,042)	(1,059,118)
Reclassification between groups	(808)	(3,881)	(7,455)	(430)	12,574	-
Depreciation charge	(7,985)	(35,353)	(32,332)	(22,198)	-	(97,868)
Disposals	202	987	2,124	1,843	174	5,330
Impairment	2,475	667	1,592	514	(158)	5,090
At 31 December 2015	(66,302)	(471,976)	(389,196)	(153,640)	(65,452)	(1,146,566)
At 1 January 2016	(66,302)	(471,976)	(389,196)	(153,640)	(65,452)	(1,146,566)
Reclassification between groups	(710)	(1,999)	(6,312)	(556)	9,577	-
Depreciation charge	(8,649)	(39,760)	(37,944)	(22,549)	-	(108,902)
Disposals	264	681	1,149	2,354	82	4,530
Impairment	(163)	(12,753)	(14,137)	(1,752)	(9,698)	(38,503)
At 31 December 2016	(75,560)	(525,807)	(446,440)	(176,143)	(65,491)	(1,289,441)
<i>Net book value</i>						
At 31 December 2015	171,346	666,580	495,923	113,040	287,155	1,734,044
At 31 December 2016	178,978	687,004	534,159	111,185	287,242	1,798,568

14 **Property, plant and equipment (continued)**

As at 31 December 2016, construction in progress includes advance payments for purchase of property, plant and equipment of RUB 26,904 million (31 December 2015: RUB 13,660 million).

Capitalized borrowing costs for the year ended 31 December 2016 amounted to RUB 24,660 million (for the year ended 31 December 2015: RUB 29,831 million), with capitalization rates of 6.16%-16.00% (for the year ended 31 December 2015: 7.93-14.71%).

As at 31 December 2016 and 31 December 2015 there are no fixed assets pledged as collateral for loans and borrowings.

The portion of depreciation has been capitalized to the cost of the capital construction objects for the year ended 31 December 2016 and for the year ended 31 December 2015.

Impairment of property, plant and equipment

As the indicators of impairment were revealed, the Group performed an impairment test of the property, plant and equipment as at 31 December 2016 for the cash generating units (CGU) and recognized an impairment loss on property, plant and equipment in the amount of RUB 44,952 million (as at 31 December 2015: RUB 10,753 million), thus loss recognised as at 31 December 2016 and partially amortised was reversed in the amount of RUB 6,449 million (as at 31 December 2015: RUB 15,843 million).

Recoverable amount for all CGU's, as value in use, was calculated using the discounting rate, determined as the weighted average cost of capital (WACC) within the range of 8.96% - 10.91% (2015: 9.50%-11.31%).

15 Intangible assets

	Software	Licenses and certificates	Other intangible assets	Total
Initial cost				
As of January 1, 2015	16,652	271	8,762	25,685
Reclassification between groups	895	(10)	(885)	-
Additions	2,844	18	4,431	7,293
Disposals	(1,045)	(130)	(372)	(1,547)
As of December 31, 2015	19,346	149	11,936	31,431
As of January 1, 2016	19,346	149	11,936	31,431
Reclassification between groups	30	-	(30)	-
Additions	2,795	6	867	3,668
Disposals	(607)	(12)	(1,641)	(2,260)
As of December 31, 2016	21,564	143	11,132	32,839
Amortization				
As of January 1, 2015	(9,099)	(145)	(2,141)	(11,385)
Reclassification between groups	(288)	-	288	-
Amortization charge	(2,223)	(73)	(422)	(2,718)
Disposals	1,022	126	56	1,204
As of December 31, 2015	(10,588)	(92)	(2,219)	(12,899)
As of January 1, 2016	(10,588)	(92)	(2,219)	(12,899)
Reclassification between groups	(6)	(1)	7	-
Amortization charge	(2,164)	(21)	(2,744)	(4,929)
Disposals	533	12	1,248	1,793
As of December 31, 2016	(12,225)	(102)	(3,708)	(16,035)
Net book value				
As of December 31, 2015	8,758	57	9,717	18,532
As of December 31, 2016	9,339	41	7,424	16,804

16 Other investments and financial assets

	31 December 2016	31 December 2015
Non-current		
Available-for-sale financial assets	75,315	22,215
Financial assets held to maturity	3,328	3,096
Assets related to employee defined benefits plans (Note 24)	6,708	6,617
	85,351	31,928
Current		
Financial assets held to maturity	12,620	36,777
	12,620	36,777

Available-for-sale non-current financial assets are mainly represented by the shares in PJSC Inter RAO UES. Fair value of these shares is based on published market quotations and amounted to RUB 74,520 million and RUB 21,480 million as at 31 December 2016 and 31 December 2015 respectively. For the year ended 31 December 2016, increase in the fair value of these available-for-sale financial investments is represented in other comprehensive income.

16 Other investments and financial assets (continued)

Financial assets held to maturity are mainly represented by bank deposits with an original maturity of more than three months were placed with a number of banks bearing an interest of 0.51%-10.9% per annum.

As at 31 December 2016 financial assets held to maturity include subordinated deposits placed at OJSC Bank Tavrichesky in the amount of RUB 12,700 million (as at 31 December 2015 – RUB 12,700 million). As at 31 December 2016, the provision for impairment of these financial investments amounted to RUB 10,236 million (as at 31 December 2015 – RUB 10,416 million).

The impairment provision was recognised as at 31 December 2014 OJSC Bank Tavrichesky faced liquidity problems. In February 2015, external management procedure was initiated, and the Bank was taken into temporary administration of GK Deposit Insurance Agency (hereinafter, "ASV"). In March 2015 ASV screened over investors for the Bank depositors and creditors protection and appointed OJSC AKB International Financial Club (hereinafter – Investor) as a candidate with the most favourable financing terms to prevent the Bank's bankruptcy.

Currently ASV has full control over the process of financial recovery of OJSC Bank Tavrichesky based on the general agreement between Investor, the Bank, PJSC Lenenergo and PJSC IDGC North West. This agreement stipulates reporting comprehensive information of Bank's financial standing on a regular basis.

The Group's exposure to credit risk and impairment losses related to other investments and financial assets is disclosed in Note 27.

17 Deferred tax assets and liabilities

(a) Recognized deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Property, plant and equipment	3,060	2,480	(72,533)	(69,779)	(69,473)	(67,299)
Intangible assets	436	436	(226)	(169)	210	267
Available-for-sale investments	3,554	5,346	(10,404)	(1,561)	(6,850)	3,785
Inventories	450	585	(97)	(75)	353	510
Trade and other receivables and prepayments	10,984	10,951	(1,041)	(1,348)	9,943	9,603
Finance lease liabilities	216	133	-	-	216	133
Loans and borrowings	70	-	(264)	(394)	(194)	(394)
Provisions	4,839	4,575	(41)	(21)	4,798	4,554
Employee benefits	2,908	3,041	(53)	(48)	2,855	2,993
Trade and other payables	2,699	2,843	(33)	(125)	2,666	2,718
Tax loss carry-forwards	3,395	3,671	-	-	3,395	3,671
Other	808	553	(412)	(641)	396	(88)
Tax assets/(liabilities)	33,419	34,614	(85,104)	(74,161)	(51,685)	(39,547)
Set-off of tax	(18,269)	(14,006)	18,269	14,006	-	-
Unrecognized deferred tax assets	(8,081)	(12,029)	-	-	(8,081)	(12,029)
Net tax assets/(liabilities)	7,069	8,579	(66,835)	(60,155)	(59,766)	(51,576)

(b) Unrecognized deferred tax liabilities

At 31 December 2016, a deferred tax liability for temporary differences of RUB 158,138 million (31 December 2015: RUB 111,502 million) related to an investment in subsidiaries was not recognized because the Group is able to control the timing of the reversal of this temporary difference and it is probable that this temporary difference will not reverse in the foreseeable future.

17 Deferred tax assets and liabilities (continued)

(c) Unrecognized deferred tax assets

Deferred tax assets have not been recognized with respect to the following:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Deductible temporary differences	27,097	45,541
Tax losses	13,309	14,607
Total	40,406	60,148
Unrecognized deferred tax assets at the applicable tax rate	8,081	12,029

The deductible temporary differences do not expire under current tax legislation. Tax losses may be carried forward and utilized for up to 10 years. Deferred tax assets have not been recognized with respect to tax losses and temporary differences because it is not probable that future taxable profit will be available, against which the loss-making Group's companies can utilize the relevant temporary differences and tax losses.

As at 31 December 2016 the amount of accumulated tax losses of the Group incurred during the period from 2006 to 2016, is RUB 16,974 million.

(d) Movement in temporary differences during the year

	<u>1 January 2016</u>	<u>Additions on acquisition of subsidiaries</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>Disposal of subsidiaries and other movement</u>	<u>31 December 2016</u>
Property, plant and equipment	(67,299)	-	(2,261)	-	87	(69,473)
Intangible assets	267	-	(57)	-	-	210
Available-for-sale investments	3,785	-	(7)	(10,628)	-	(6,850)
Inventories	510	-	(157)	-	-	353
Trade and other receivables and prepayments	9,603	-	1 841	-	(1,501)	9,943
Finance lease liabilities	133	-	83	-	-	216
Loans and borrowings	(394)	-	200	-	-	(194)
Provisions	4,554	-	244	-	-	4,798
Employee benefits	2,993	-	(9)	(129)	-	2,855
Trade and other payables	2,718	-	(52)	-	-	2,666
Tax loss carry-forwards	3,671	-	624	-	(900)	3,395
Other	(88)	-	489	-	(5)	396
Unrecognized deferred tax assets	(12,029)	-	1,242	-	2,706	(8,081)
	(51,576)	-	2,180	(10,757)	387	(59,766)

17 Deferred tax assets and liabilities (continued)

(d) Movement in temporary differences during the year (continued)

	1 January 2015	Additions on business combinations	Recognized in profit or loss	Recognized in other comprehensive income	Disposal of subsidiaries	31 December 2015
Property, plant and equipment	(46,036)	3,009	(24,213)	-	(59)	(67,299)
Intangible assets	389	-	(122)	-	-	267
Available-for-sale investments	5,307	(52)	98	(1,565)	(3)	3,785
Inventories	659	(10)	(147)	-	8	510
Trade and other receivables and prepayments	6,150	8	3,509	-	(64)	9,603
Finance lease liabilities	501	-	(368)	-	-	133
Loans and borrowings	(276)	(124)	6	-	-	(394)
Provisions	4,699	(42)	(51)	-	(52)	4,554
Employee benefits	2,387	-	(392)	998	-	2,993
Trade and other payables	2,637	(70)	140	-	11	2,718
Tax loss carry-forwards	5,283	-	15	-	(1,627)	3,671
Other	669	(446)	(311)	-	-	(88)
Unrecognized deferred tax assets	(9,641)	-	(4,094)	-	1,706	(12,029)
	(27,272)	2,273	(25,930)	(567)	(80)	(51,576)

18 Inventories

	31 December 2016	31 December 2015
Raw materials and supplies	17,327	16,283
Allowance for impairment of raw materials and supplies	(527)	(540)
Other inventories	16,386	18,245
Allowance for impairment of other inventories	(43)	(67)
Net book value	33,143	33,921

19 Trade and other receivables

	<u>31 December 2016</u>	<u>31 December 2015</u>
Non-current accounts receivable		
Trade receivables	44,703	11,100
Trade receivables impairment allowance	(790)	(1,411)
Other receivables	364	298
Other receivables impairment allowance	(1)	-
Loans given	1,100	1,312
Allowance for non-current loans given	-	(162)
Total financial assets	45,376	11,137
Advances given	7,618	7,728
Advances given impairment allowance	(4,786)	(4,838)
VAT recoverable	3,054	2,545
	51,262	16,572
Current accounts receivable		
Trade receivables	210,744	194,641
Trade receivables impairment allowance	(77,887)	(73,149)
Other receivables	24,434	21,736
Other receivables impairment allowance	(10,817)	(8,066)
Loans given	392	163
Allowance for current loans given	(175)	(13)
Total financial assets	146,691	135,312
Advances given	17,408	17,490
Advances given impairment allowance	(9,853)	(4,829)
VAT recoverable	12,743	14,254
Prepaid taxes, other than income tax and VAT	627	397
	167,616	162,624

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 27.

20 Cash and cash equivalents

	<u>31 December 2016</u>	<u>31 December 2015</u>
Cash in state-controlled banks	43,782	50,490
Cash in banks not controlled by state	3,384	2,250
Deposits in state-controlled banks	27,985	44,196
Deposits in other banks	11,724	29
Cash equivalents	95	125
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	<u>86,970</u>	<u>97,090</u>

Cash equivalents primarily consist of bank deposits placed with a number of banks for less than three months bearing an interest of 4.0%-13.65% per annum.

During the reporting period, the subsidiary entity of the PJSC Lenenergo carried out measures to create an infrastructure for technological connection within the framework of the fulfilment of obligations under the Agreement with the Ministry of Energy of the Russian Federation (concluded on 30 December 2015 and stipulating the procedure for spending the targeted funds for performing the relevant work in cash volume equal to RUB 14,975 million). As a result of the use of new technologies in the performance of works and optimization of technical solutions, the balance of the target cash in the special account as of 31 December 2016 amounted to RUB 4,257 million.

21 Equity

(a) Share capital

Number of shares unless otherwise stated

	<u>Ordinary shares</u>		<u>Preference shares</u>	
	<u>31 December 2016</u>	<u>31 December 2015</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Par value	RUB 1	RUB 1	RUB 1	RUB 1
On issue at 1 January	161,078,853,310	161,078,853,310	2,075,149,384	2,075,149,384
On issue at end of year, fully paid	195,995,579,707	161,078,853,310	2,075,149,384	2,075,149,384

(b) Ordinary and preference shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

Holders of preference shares are entitled to an annual dividend equal to 10% of net statutory profit divided by 25% of all shares. If the amount of dividends paid by the Company for each ordinary share in a given year exceeds the amount payable as a dividend on each preference share, the dividend rate payable on the latter must be increased to the amount of dividends on ordinary shares.

21 Equity (continued)

(b) Ordinary and preference shares (continued)

Preference shares carry the right to vote on all issues within the competence of general shareholders' meetings following the Annual Shareholders' Meeting at which a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at general shareholders' meetings ceases from the date of the first full payment of dividends on such shares. The dividend is not cumulative, however. The preference shares also carry the right to vote, but this right is limited according to the amendments of the Company Charter, which include reorganization and liquidation.

In the event of liquidation, preference shareholders receive any declared unpaid dividends and the par value of the preference shares. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

(c) Issue of additional shares

On 6 October 2015 the Extraordinary General Meeting of Shareholders of the Company approved an increase in the Company's charter capital through issuance of 42,796,991,468 additional ordinary shares with a par value of RUB 1 each under an open subscription. The offering price was determined at RUB 1 per share. Funds for the issue of shares at 31 December 2015, in the amount of RUB 33,473 million were recognised as reserve for issue of shares in equity. As at 31 December 2015, the changes to the charter are not registered.

During the first half of 2016, for additional placed shares for this issue, cash was received in the amount of RUB 1,444 million. On 30 May 2016 the placement of the additional issue of shares was completed and 34,916,726,397 shares were placed. On 17 August 2016 the increase to the charter was registered.

By the decision of the Board of Directors of PJSC ROSSETI (Minutes No. 248 of 21 December 2016), a resolution was adopted to increase the Company's charter capital through issuance of 3,259,955,215 additional ordinary shares with a par value of RUB 1 each. The offering price was determined at RUB 1.0424 per share. Funds for the issue of shares in the amount of 1,609,540,617 shares at 31 December 2016 in the amount of RUB 1,678 million were recognized as a reserve for the issue of shares in equity. As at 31 December 2016, the changes to the charter are not registered.

(d) Changes in ownership interests of subsidiaries

Shares issued by subsidiaries

On 24 November 2015, an Extraordinary General Meeting of Shareholders of PJSC Lenenergo, the Group's subsidiary, approved an increase in its share capital through the issuance of additional 18,882,455,451 ordinary shares with a par value of RUB 1 each under an open subscription. The approved offering price was RUB 6.99. In 2015, 4,660,980,974 shares were acquired by the Group, 2,179,903,032 shares were acquired by the city of St. Petersburg represented by the Committee of property relations. The Group has made payment of shares using Federal loan bonds issued in the amount of RUB 32,000 million and cash RUB 580 million. Additional capital of RUB 15,091 million attributable to non-controlling shareholders was recognized as non-controlling interest as at 31 December 2015. As a result of the subscription of shares the Group's ownership interest in PJSC Lenenergo increased from 67.55% to 68.01%.

21 Equity (continued)

(d) Changes in ownership interests of subsidiaries (continued)

In 2016, the Group additionally acquired from this issue 24 086 475 shares of PJSC Lenenergo. The group has made payment of shares for cash in the amount of RUB 168 million. The Group recognised an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 32 million. As a result of the subscription of shares the Group's ownership interest in PJSC Lenenergo increased from 68.01% to 68,10%.

On 27 November 2015, an Extraordinary General Meeting of Shareholders of PJSC IDGC of Volga, the Group's subsidiary, approved an increase in charter capital through the issuance of additional 10,685,233,931 ordinary shares with a par value of RUB 0.1 each under an open subscription. The approved offering price was RUB 0.1. In 2015, 668,600,000 shares were subscribed by the Group for RUB 67 million paid in cash. The Group recognized an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 12 million. As a result of the subscription of shares the Group's ownership interest in PJSC IDGC of Volga increased from 67.63% to 67.75%.

In June 2016, the Group additionally acquired 1,848,200,000 shares from this issue. The Group paid in cash in the amount of RUB 185 million. The Group recognized an increase in retained earnings and a decrease in non-controlling interest of RUB 36 million. As a result of the subscription of shares the Group's ownership interest in IDGC of Volga increased from 67.75% to 68.08%.

On 30 September 2016, an Extraordinary General Meeting of Shareholders of IDGC of Volga, approved an increase in charter capital through the issuance of additional 8,996,857,669 ordinary shares with a par value of RUB 0.1 each under an open subscription. The approved offering price was RUB 0.1. In 2016 from this issue, 4,709,200,000 shares were acquired by the Group. The Group paid in cash in the amount of RUB 471 million. The Group recognized an increase in retained earnings and a decrease in the non-controlling interest of RUB 104 million. As a result of the subscription of shares the Group's ownership interest in IDGC of Volga increased from 68.08% to 68.89%.

On 26 June 2015 at the Annual General Meeting of Shareholders of PJSC IDGC of Siberia, the Group's subsidiary, approved an increase in charter capital through the issuance of additional 5,071,030,570 preference shares with a par value of RUB 0.1 each by under private subscription. The approved offering price was RUB 0.1. In 2016, the Group acquired all shares of this issue. The Group paid in cash in the amount of RUB 507 million. The report on the results of the issue was registered on 18 February 2016. The Group recognized an increase in retained earnings and a decrease in non-controlling interest of RUB 99 million. As a result of the subscription of shares the Group's ownership interest in PJSC IDGC of Siberia increased from 55.59% to 57.84%.

On 6 June 2016, at the Annual General Meeting of Shareholders of PJSC IDGC of the South, the Group's subsidiary, approved an increase in charter capital through the issuance of additional 11,615,110,154 ordinary shares with a par value of RUB 0.1 each an under open subscription. The approved offering price was RUB 0.1. In 2016 1,438,276,000 shares of this issue were acquired by the Group. The Group paid in cash in the amount of RUB 144 million. Additional capital of RUB 103 million attributable to non-controlling shareholders was recognized as non-controlling interest as at 31 December 2016. As a result of the subscription of shares the Group's ownership interest in IDGC of the South increased from 51.66% to 53.01%.

21 Equity (continued)

(e) Dividends

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

At the annual general shareholders meeting of the Company held on 30 June 2015, the decision was made not to declare dividends for ordinary and preference shares according to the results of 2014.

The Annual General Shareholders Meeting held on 30 June 2016 decided not to pay dividends on ordinary and preference shares of PJSC "ROSSETI" for 2015 and pay dividends from the net profit of PJSC "ROSSETI" for the first quarter of 2016 in the amount of RUB 1,785 million (for preference shares in the amount of RUB 0.07 per one preference share and for ordinary shares at RUB 0.008 per one ordinary share).

(f) Treasury shares

Information regarding treasury shares is presented below:

31 December 2016			31 December 2015		
Number of shares, mln.		Cost, mln. RUB	Number of shares, mln.		Cost, mln. RUB
Ordinary	Preference		Ordinary	Preference	
1,486	308	2,702	1,488	308	2,713

22 Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2016 was based on the earnings attributable to ordinary shareholders for 2016 in the amount of RUB 74,615 million (for 2015: earnings of RUB 64,036 million), and a weighted average number of ordinary shares outstanding of 193,933 million in 2016 (for 2015: 159,591 million). The Company has no dilutive financial instruments.

<i>In millions of shares</i>	2016	2015
Ordinary shares at 1 January	161,079	161,079
Effect of treasury shares	(1,486)	(1,488)
Effect of issued shares	34,340	-
Weighted average number of shares for the year ended 31 December	193,933	159,591
	Year ended 31 December 2016	Year ended 31 December 2015
Weighted average number of ordinary shares outstanding, for the year ended 31 December (millions of shares)	193,933	159,591
Earning for the year attributable to holders of ordinary shares	74,615	64,036
Earnings per ordinary share (in RUB) – basic and diluted	0.39	0.40

23 Loans and borrowings

	<u>31 December 2016</u>	<u>31 December 2015</u>
<i>Non-current liabilities</i>		
Unsecured loans and borrowings	221,423	220,999
Unsecured bonds	326,052	344,422
Finance lease liabilities	1,146	663
Less: current portion of long-term finance lease liabilities	(214)	(146)
Less: current portion of long-term loans and borrowings	(41,042)	(54,036)
Less: current portion of long-term bonds	(35,308)	(46,463)
	<u>472,057</u>	<u>465,439</u>
<i>Current liabilities</i>		
Unsecured loans and borrowings	9,906	17,828
Promissory notes	359	359
Current portion of long-term finance lease liabilities	214	146
Current portion of long-term loans and borrowings	41,042	54,036
Current portion of long-term bonds	35,308	46,463
	<u>86,829</u>	<u>118,832</u>

23 Loans and borrowings (continued)

	Currency	Year of maturity	31 December 2016		31 December 2015		31 December 2016		31 December 2015	
			Nominal interest rate	Nominal interest rate	Face value	Carrying value	Face value	Carrying value	Face value	Carrying value
Unsecured loans and borrowings										
Unsecured bank loans *	RUB	2017-2019	8.00-12.50%	7.01-13.25%	132,952	133,138	161,118	161,335		
Unsecured bank loans *	RUB	2017-2021	9.80-13.00%	7.64-15.00%	44,165	44,235	15,835	15,890		
Unsecured bank loans *	RUB	2017-2021	8.08-10.40%	7.66-13.20%	31,873	31,904	30,447	30,486		
Unsecured bank loans*	RUB	2018-2019	Key rate of CB RF+1.00-1.30%	Key rate of CB RF+1.50-1.60%	7,556	7,566	2,835	2,839		
Unsecured bank loans	RUB	2017	9.85%	11.50-11.80%	7,000	7,009	8,600	8,616		
Unsecured bank loans	RUB	2017	9.25-13.50%	8.75-15.50%	3,756	3,756	7,328	7,330		
Unsecured bank loans *	RUB	2017	Key rate of CB RF+1.81%	-	1,528	1,529	-	-		
Unsecured bank loans *	RUB	2019	Key rate of CB RF+0.00%	-	500	501	-	-		
Unsecured bank loans	RUB	2017-2018	12.50-14.00%	12.50-16.00%	432	432	232	232		
Unsecured bank loans *	RUB	2017	10.00%	11.34-12.90%	424	424	1,924	1,924		
Unsecured bank loans	RUB	2017	13.50%	12.70-13.50%	200	200	634	634		
Unsecured bank loans	RUB	2021	12.00-14.54%	8.28-14.54%	162	162	326	329		
Unsecured bank loans	RUB	2017	11.90%	-	73	73	-	-		
Unsecured bank loans*	RUB	2017-2019	12.90-13.00%	-	60	61	-	-		
Unsecured bank loans	RUB	2017	12.50%	11.90-15.00%	50	50	4,169	4,183		
Unsecured bank loans	RUB	2017	14.55%	-	8	8	-	-		
Unsecured bank loans	RUB	2017-2019	15.50-19.00%	-	4	5	-	-		
Unsecured bank loans*	RUB	2017-2018	13.50-14.50%	10.92-14.00%	2	2	1,003	1,003		
Unsecured bank loans*	RUB	2016	-	11.00-16.50%	-	-	3,003	3,003		
Unsecured bank loans	RUB	2016	-	13.00%	-	-	899	901		
Unsecured bank loans	RUB	2016	-	12.90-20.00%	-	-	11	11		
Unsecured loans *	RUB	2018-2025	0.00-3.00%	0.00-3.00%	273	274	156	111		
					231,018	231,329	238,520	238,827		
Promissory notes										
Promissory notes	RUB	On demand	0%	0%	359	359	359	359		
					359	359	359	359		

ROSSETI Group
Notes to the Consolidated Financial Statements for the year ended 31 December 2016
(in millions of Russian rubles, unless otherwise stated)

	Currency	Year of maturity	31 December 2016		31 December 2015		
			Nominal interest rate	Face value	Carrying value	Face value	Carrying value
Bonds							
Unsecured bonds	RUB	2022-2048	(CPI ¹ -100%)+1.00% - (CPI-100%) + 2.50%	110,000	111,249	110,000	112,542
Unsecured bonds	RUB	2017-2028	7.95-9.00%	52,250	53,590	100,000	77,170**
Unsecured bonds	RUB	2045-2050	(CPI ² -100%)+1.00%	40,000	40,478	40,000	41,043
Unsecured bonds	RUB	2017-2020	7.50-8.25%	31,639	32,241	50,000	32,226**
Unsecured bonds	RUB	2020-2045	9.15-11.90%	31,000	31,481	31,000	31,238
Unsecured bonds	RUB	2017-2026	9.65-11.00%	23,000	23,505	17,000	17,437
Unsecured bonds	RUB	2019	8.45%	17,500	17,943	17,500 ¹	17,943
Unsecured bonds	RUB	2021-2051	9.35%	10,000	10,082	—	—
Unsecured bonds	RUB	2020-2025	11.80	5,000	5,057	5,000	5,053
Unsecured bonds	RUB	2017-2024	9.30%	662	426	737	511
Unsecured bonds	RUB	2016	—	—	—	3,000	3,106
Unsecured bonds	RUB	2016	—	—	—	6,000	6,153
Financial lease liabilities	RUB	2018-2038	9.50-11.00%	321,051	326,052	380,237	344,422
Total debt				1,146	1,146	663	663
				553,574	558,886	619,779	584,271

* Loans from state-controlled entities.

** Carrying value differs due to redemption of some bond issues as of 31 December 2015

¹ Consumer price index - CPI

² Consumer price index - CPI

23 Loans and borrowings (continued)

The nominal interest rate is the current market interest rate. The Group has not entered into any hedging arrangements with respect to interest rate exposures.

Information about the Group's exposure to interest rate risk is disclosed in Note 27.

The amount of free limit on open but unused credit lines of the Group was RUB 326,680 million at 31 December 2016 (RUB 201,269 million as at 31 December 2015).

Financial lease liabilities by repayment term are disclosed below:

	31 December 2016			31 December 2015		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	345	133	212	208	62	146
Between one and five years	935	270	665	558	74	484
More than five years	354	87	267	38	5	33
	1,634	490	1,144	804	141	663

The financial lease liabilities are secured by leased assets.

24 Employee benefits

The Group has a defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of several unfunded plans providing for lump-sum payments upon retirement, financial support for current pensioners, death benefits, and anniversary benefits.

Amounts of defined benefit obligations recognized in the consolidated statement of financial position are presented below:

	31 December 2016	31 December 2015
Present value of post-employment benefits obligation	27,208	28,231
Present value of other long-term employee benefit obligation	1,217	1,242
Total present value of employee benefit obligation	28,425	29,473

24 Employee benefits (continued)

Change in the value of assets related to employee benefit obligations:

	Year ended 31 December 2016	Year ended 31 December 2015
Value of assets at 1 January	6,617	6,552
Return on plan assets	377	341
Employer contributions	1,964	2,014
Other movements in the accounts	30	15
Payment of remuneration	(2,280)	(2,305)
Value of assets at 31 December	6,708	6,617

Assets related to pension plans and defined benefit plans are administrated by non-state pension funds NPF Elektroenergetiki and Professionalny. These assets are not the defined benefit plans' assets, because under the terms of agreements between the Group and the funds the Group has the right to use the contributions paid under defined benefit plans to fund its defined contribution pension plans or transfer to another fund on the Group's own initiative.

Movements in the present value of defined benefit liabilities:

	Year ended 31 December 2016		Year ended 31 December 2015	
	Post-employment benefits obligation	Other long-term employee benefit obligation	Post-employment benefits obligation	Other long-term employee benefit obligation
Defined benefit plan obligations as at 1 January	28,231	1,242	24,544	968
Current service cost	1,596	117	1,367	92
Past service cost	(246)	(11)	(2,753)	(9)
Interest expense	2,396	103	2,639	101
Remeasurement arising from:				
– Actuarial loss/(gain) arising from demographic assumptions	180	12	(135)	(1)
– Actuarial (gain)/loss arising from financial assumptions	(772)	(31)	3,911	146
– Actuarial (gain)/loss arising from experience adjustment	(1,344)	(54)	1,410	81
Contributions to the plan	(2,833)	(161)	(2,752)	(136)
Defined benefit plan obligations as at 31 December	27,208	1,217	28,231	1,242

24 Employee benefits (continued)

Expenses recognized in profit or loss for the period:

	Year ended 31 December 2016	Year ended 31 December 2015
Employees service cost	1,456	(1,303)
Remeasurement of other long-term employee benefit obligation	(74)	226
Interest expenses	2,499	2,740
Total expenses recognized in profit or loss	3,881	1,663

Amounts recognized in other comprehensive income for the period:

	Year ended 31 December 2016	Year ended 31 December 2015
Actuarial loss/(gain) arising from demographic assumptions	180	(135)
Actuarial (gain)/loss arising from financial assumptions	(772)	3,911
Actuarial (gain)/loss arising from experience adjustment	(1,344)	1,410
Total actuarial (gain)/ loss recognized in other comprehensive income	(1,936)	5,186

Movements in allowance for remeasurement of employee benefit obligations in other comprehensive income during the year:

	Year ended 31 December 2016	Year ended 31 December 2015
Remeasurements at 1 January	12,844	7,658
Movement of remeasurements	(1,936)	5,186
Remeasurements at 31 December	10,908	12,844

24 Employee benefits (continued)

The key actuarial assumptions are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Financial assumptions		
Discount rate	8,5%	9,5%
Future salary increase	4,7%	6%
Inflation rate	4,7%	6%
Demographic assumptions		
Expected age of retirement:		
Men	60	60
Women	55	55
Average level of staff movement	6,0%	6,3%

A sensitivity of total employee benefits obligations to changes in the key actuarial assumptions is as follows:

	<u>Change in the assumption</u>	<u>Impact on obligation</u>
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 3.96%
Future salary growth	Increase/decrease by 0.5%	Increase/decrease by 1.81%
Future growth of benefits (inflation)	Increase/decrease by 0.5%	Increase/decrease by 2.29%
Level of staff movement	Increase/decrease by 10%	Decrease/increase by 1.49%
Mortality level	Increase/decrease by 10%	Decrease/increase by 0.79%

	<u>31 December 2016</u>	<u>31 December 2015</u>
Defined benefit liability	(28,425)	(29,473)
Assets related to the employee benefit plans	6,708	6,617
Total	(21,717)	(22,856)

Expected payments under the defined long-term employee benefit plans to employees in 2017 are RUB 5,305 million, including:

- RUB 5,136 million under the defined benefit plans, including non-state pension schemes;
- RUB 169 million under the other long-term employee benefit schemes.

25 Trade and other payables

	<u>31 December 2016</u>	<u>31 December 2015</u>
Non-current accounts payable		
Trade payables	201	180
Other payables	357	224
Total financial liabilities	558	404
Advances from customers	23,140	21,671
	23,698	22,075
Current accounts payable		
Trade payables	130,422	142,610
Other payables and accrued expenses	15,344	15,761
Payables to employees	19,621	17,355
Dividends payable	156	589
Total financial liabilities	165,543	176,315
Advances from customers	72,624	74,783
	238,167	251,098
Taxes payable		
Value-added tax	14,861	9,008
Property tax	4,445	3,731
Social security contributions	3,097	2,862
Other taxes payable	1,184	1,273
	23,587	16,874
	261,754	267,972

The Group's exposure to liquidity risk related to payables is disclosed in Note 27.

26 Provisions

	<u>2016</u>	<u>2015</u>
Balance at 1 January	11,421	18,871
Increase for the year	14,059	10,744
Decrease due to reversal of provisions	(4,312)	(6,815)
Provisions used	(6,863)	(11,379)
Balance at 31 December	14,305	11,421

Provisions relate mainly to legal proceedings and claims against the Group in the day-to-day terms of business.

27 Financial risk and capital management

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.

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

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

(a) 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.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group monitors existing debt on a regular basis and takes steps to collect the debt and to mitigate losses.

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

The Group does not require collateral with respect to receivables.

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

27 Financial risk and capital management (continued)

Exposure to credit risk

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

	Carrying amount	
	31 December 2016	31 December 2015
Promissory notes	200	354
Participation units/shares	668	608
Loans given and receivables	187,243	146,449
Bank deposits, cash and cash equivalents	102,050	136,001
	290,161	283,412

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

	Carrying amount	
	31 December 2016	31 December 2015
North-West region	19,822	21,269
Central region	93,192	57,574
Ural and Volga region	23,683	21,058
South region	23,391	16,748
Siberian region	16,568	14,411
Other regions	114	121
	176,770	131,181

The Group's ten most significant debtors account for RUB 75,314 million of the trade receivables carrying amount at 31 December 2016 (at 31 December 2015: RUB 40,061 million).

Impairment losses of trade and other receivables

The aging of trade and other receivables is provided below:

	Gross	Impairment	Gross	Impairment
	31 December 2016	31 December 2016	31 December 2015	31 December 2015
Not past due	133,516	(3,224)	88,079	(1,195)
Past due less than 3 months	28,643	(5,159)	26,508	(4,112)
Past due more than 3 months and less than 6 months	13,965	(4,356)	11,158	(3,286)
Past due more than 6 months and less than 1 year	20,746	(8,560)	26,629	(9,628)
Past due more than 1 year	83,375	(68,196)	75,401	(64,405)
	280,245	(89,495)	227,775	(82,626)

27 Financial risk and capital management (continued)

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

	2016	2015
Balance at 1 January	(82,626)	(60,910)
Increase for the period	(34,271)	(44,015)
Allowance utilized	8,415	4,452
Decrease due to reversal	18,987	17,847
Balance at 31 December	(89,495)	(82,626)

Impairment of receivables

	31 December 2016	31 December 2015
Not overdue, not impaired receivables	130,292	80,317
Not overdue impaired receivables	3,224	7,949
Overdue, not impaired receivables	60,458	55,578
Overdue impaired receivables	86,271	83,931
	280,245	227,775

The Group analyzed that not impaired past due accounts receivable are recoverable with the high level of probability.

(c) Liquidity risk

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

Management of liquidity risk involves maintaining sufficient cash and the availability of financial resources by securing credit lines. The Group adheres to a balanced model of financing working capital by using both short-term and long-term sources. Basically temporarily free funds invested in the short-term financial instruments such as Bank deposits.

The Group's approach to managing liquidity is to ensure, 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 analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

As stated in Note 23 , the amount of free limit on open but unused credit lines of the Group was RUB 326,680 million at 31 December 2016 (31 December 2015: RUB 201,269 million). The Group has opportunity to attract additional financing within the corresponding limits, including for the purpose of execution of the short-term obligations.

27 Financial risk and capital management (continued)

Information about the contractual maturities of financial liabilities, including estimated interest payments, is provided below:

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
31 December 2016								
Non-derivative financial liabilities								
Loans and borrowings	231,329	271,503	74,879	112,014	76,457	341	7,657	155
Bonds	326,052	556,103	54,105	35,414	44,056	48,879	30,247	343,402
Promissory notes	359	359	359	-	-	-	-	-
Finance lease liabilities	1,146	1,635	345	479	166	153	138	354
Trade and other payables	166,099	165,069	164,466	412	115	9	5	62
	724,985	994,669	294,154	148,319	120,794	49,382	38,047	343,973
31 December 2015								
Non-derivative financial liabilities								
Loans and borrowings	238,827	279,230	88,547	82,263	103,653	4,452	38	277
Bonds	344,422	661,449	76,151	53,023	49,391	33,642	51,363	397,879
Promissory notes	359	359	359	-	-	-	-	-
Finance lease liabilities	663	804	208	175	333	25	25	38
Trade and other payables	176,719	175,472	175,055	305	3	69	3	37
	760,990	1,117,314	340,320	135,766	153,380	38,188	51,429	398,231

27 Financial risk and capital management (continued)

(d) Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates, prices of goods and equity prices that will affect the Group's financial results or the value of its financial instruments owned. 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 majority of the Group's revenues and expenditures, monetary assets and liabilities are denominated in RUB, and as such financial results are insignificantly impacted by changes in exchange rates.

(ii) Interest rate risk

The Group obtains borrowings mostly at fixed rates and is subject to a limited risk of changes in interest rates.

The Group management does not have a formal policy for 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, the Group 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 the early repayment of loans on the borrower's initiative, which facilitates additional flexibility in relation to optimizing interest rates in the current economic environment.

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

As at 31 December 2016 variable rate financial liabilities of the Group amounted to RUB 159,584 million (31 December 2015: RUB 156,424 million). A reasonably possible change of 100 basis points in interest rates at 31 December 2016 would have increased (decreased) equity and profit or loss (net of taxes) for 2016 by RUB 1,277 million (2015: RUB 1,223 million). This analysis assumes that all other variables remain constant and interest expenses are not capitalized.

(iii) Other market price risk

Equity price risk arises from available-for-sale equity securities. The Management of the Group monitors its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Group Management. As at 31 December 2016, available-for-sale financial assets exposed to equity price risk amounted to RUB 75,315 million (31 December 2015: RUB 22,215 million).

27 Financial risk and capital management (continued)

(e) Fair values and carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts are as follows:

	Note	31 December 2016		31 December 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Loans given and receivables	19	192,061	192,061	146,449	146,449
Available-for-sale financial assets	16	75,315	75,315	22,215	22,215
Financial assets held to maturity	16	15,948	15,948	39,873	39,873
Cash and cash equivalents	20	86,970	86,970	97,090	97,090
Loans and borrowings	23	(558,886)	(550,885)	(584,271)	(555,839)
Trade and other payables	25	(166,099)	(166,099)	(176,719)	(176,719)
		(354,691)	(346,690)	(455,363)	(426,931)

The basis for determining the disclosed fair values is described in Note 4 and below.

The interest rate used to discount estimated cash flows for non-current and current debt for the determination of fair value as at 31 December 2016 was 9.02-11.91% (31 December 2015: 12.94-14,58%).

(f) Fair value hierarchy

In the table below loans and borrowings, which are recognized at amortized cost, are presented at fair value by hierarchy level.

	Level 1	Level 2	Level 3	Total
31 December 2016	124,173	21,580	31,481	177,234
Loans and borrowings	124,173	21,580	31,481	177,234
31 December 2015	127,442	82,970	37,835	248,247
Loans and borrowings	127,442	82,970	37,835	248,247

27 Financial risk and capital management (continued)

(f) Fair value hierarchy (continued)

The fair value of other loans and borrowings is equal to their carrying amount.

The table below analyses financial instruments carried at fair value by valuation method.

	<u>Level 1</u>	<u>Total</u>
31 December 2016		
Available-for-sale financial assets	75,315	75,315
	<u>75,315</u>	<u>75,315</u>
31 December 2015		
Available-for-sale financial assets	22,215	22,215
	<u>22,215</u>	<u>22,215</u>

The reconciliation of the carrying amount of available-for-sale financial assets at the year beginning and the year end is provided in the table below:

At 1 January 2016	22,215
Additions	84
Selling/impairment loss	(137)
Change in fair value recognized in other comprehensive income	53,153
At 31 December 2016	<u>75,315</u>

(g) Capital management

The Group's debt-to-capital ratio was as follows:

	Carrying amount	
	<u>31 December 2016</u>	<u>31 December 2015</u>
Total liabilities	962,039	976,862
Less: cash and cash equivalents	(86,970)	(97,090)
Net debt	<u>875,069</u>	<u>879,772</u>
Equity	1,304,639	1,168,895
Debt-to-equity ratio	<u>67.07%</u>	<u>75.27%</u>

27 Financial risk and capital management (continued)

(g) Capital management (continued)

As of 31 December 2016 the Company's net assets, as determined in accordance with the Russian Accounting Principles (RAP), are exceeded its charter capital. The Group takes necessary actions for keeping net assets in the amount not less than the charter capital to comply with the legal requirements.

28 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.

Lease agreements were entered into in prior periods and consist of land plots on which power lines, equipment for electricity transmission and other assets are located. The land leases typically run for an initial period of 5 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 since all of the substantial risks and rewards of the land plots are with the landlord, the leases are considered to be operating leases.

Non-cancellable operating lease rentals are payable as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Less than one year	3,873	4,966
Between one and five years	11,016	9,922
More than five years	34,820	40,249
	<u>47,709</u>	<u>55,137</u>

The amount of operating lease expenses for 2016 included in operating expenses amounted to RUB 7,514 million (2015: RUB 6,702 million).

29 Capital commitments

As at 31 December 2016, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment items for RUB 270,514 million (as at 31 December 2015: RUB 264,696 million).

30 Contingencies

(a) Insurance

The Group has unified requirements in respect of the volume of insurance coverage, reliability of insurance companies and about procedures of insurance protection organization. The Group maintains insurance of assets, civil liability and other insurable risks. The main business assets of the Group have insurance coverage, including coverage in case of damage or loss of assets/ However, there are risks of negative impact on the operations and the financial position of the Group in the case of damage caused to third parties, and also as a result of damage or loss of assets, insurance protection of which is non-existent or not fully implemented.

30 Contingencies (continued)

(b) Taxation contingencies

The current 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 for 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 of the Group believes that it has adequately provided for tax assets and 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 have an effect on these consolidated financial statements if the authorities were successful in enforcing their interpretations.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of Management, the outcomes of current legal proceedings will not have a material adverse effect on the results of the Group's operating activities, except accrued provisions (Note 26).

(d) Environmental matters

The Group 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 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, the Group Management believes that there are no significant liabilities for environmental damage.

(e) Guarantees

As of December 31, 2016, the Company acts as a guarantor to Infrastructural Investments-3 LLC for the performance of its subsidiaries' obligations under lease agreements. The total amount of the guarantee is RUB 11,556 million.

31 Related party transactions

(a) Control relationships

The Russian Federation holds the majority of the voting shares of the Company. It is the ultimate controlling party of the Group.

(b) Management remuneration

In order to prepare these consolidated financial statements, the key management personnel are members of the Management Board and the Board of Directors of the Company, and general directors (sole executive body) of subsidiaries engaged in transmission and distribution of electric power through electric grids. The remuneration for key management personnel consists of the salary stipulated by the employment contract, non-monetary benefits, bonuses determined based on the results for the period, and other payments. Remuneration or compensation is not payable to members of the Board of Directors who are government employees.

The Group has no transactions or balances with key management and close family members, except for their remuneration in the form of salary and bonuses.

Key management received the following remuneration during the year, which is included in personnel costs:

	Year ended 31 December 2016	Year ended 31 December 2015
Salaries and bonuses	776	793
Post employment benefits	11	11
Total	787	804

(c) Transactions with government-related entities

In the course of its operating activities, the Group is engaged in many transactions with state-controlled entities. These transactions are carried out in accordance with regulated tariffs or based on market prices.

Revenues from state-controlled entities for the year ended 31 December 2016 constitute 51% (for the year ended 31 December 2015: 42%) of total Group revenues, including 44% (for the year ended 31 December 2015: 44%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for state-controlled entities for the year ended 31 December 2016 constitute 31% (for the year ended 31 December 2015: 31%) of total electricity transmission costs.

Loans and borrowings received from state-controlled entities are disclosed in Note 23.

Cash in state controlled banks is disclosed in Note 20.

(d) Pricing policies

Related party revenue for electricity transmission and sale is based on the tariffs determined by the government.

32 Events after the reporting date

On 19 September 2016 the Extraordinary General Meeting of Shareholders of PJSC Kubanenergo, the Group's subsidiary, approved an increase in its share capital through the issuance of additional 57,457,846 ordinary shares at a par value of RUB 100 each by public subscription. The approved offering price was RUB 100 per share. On 16 December 2016 equity issue was registered by the Central Bank of the Russian Federation. As at 31 December 2016 the Group made a prepayment of RUB 2,072 million for the shares. As at 26 January 2017, inclusive of actually outstanding shares of the current issue, the Group's ownership interest increased from 92.24% to 92.77%.

In February 2017, as part of the additional issue of shares of PJSC IDGC of South (Note 21), the Group's subsidiary, the Group additionally purchased 9,927,951,400 shares. As at 27 February 2017, inclusive of actually outstanding shares of the current issue, the Group's ownership interest increased from 53.01% to 60.64%.

On 05 September 2016, the Extraordinary General Meeting of Shareholders of JSC Chechenenergo, the Group's subsidiary, approved an increase in its share capital through the issuance of additional 5,068,551,655 ordinary shares at a par value of RUB 1 each by private subscription. The approved offering price was RUB 1 per share. As at 31 March 2017, the Group were acquired 491,366,638 shares. Inclusive of actually outstanding shares of the current issue, the Group's ownership interest increased from 72.66% to 74.77%.

In February 2017 the Group placed RUB 10,000 million in bonds with a 9.15% annual rate and maturing in 2020.