

# **Interregional Distribution Grid (IDG) Company of North-West**

Consolidated Interim Condensed Financial Statements  
for the six months ended 31 March 2017  
(Unaudited)

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## Consolidated Condensed Statement of Profit or Loss and Other Comprehensive Income for the 3 months ended 31 March 2017 (Unaudited)

*(in thousands of Russian roubles, except share and per share data)*

	Notes	For the three months ended 31 March	
		2017	2016
Revenue	6	13,090,482	12,229,338
Government subsidies		116	272
Operating expenses	7	(11,858,061)	(11,244,525)
Other income, net		260,204	142,589
<b>Result from operating activities</b>		<b>1,492,741</b>	<b>1,127,674</b>
Finance costs, net		(351,020)	(416,483)
<b>Profit before income tax</b>		<b>1,141,721</b>	<b>711,191</b>
Income tax expense		(247,906)	(184,906)
<b>Profit for the period</b>		<b>893,815</b>	<b>526,285</b>
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of available-for-sale financial assets		(30)	762
Income tax on items that are or may be reclassified subsequently to profit or loss		6	(152)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		(24)	610
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of the defined benefit liability		(20,537)	(36,931)
Income tax on items that will never be reclassified to profit or loss		4,107	7,386
<i>Total items that will not be reclassified to profit or loss</i>		(16,430)	(29,545)
<b>Other comprehensive loss for the period, net of income tax</b>		<b>(16,454)</b>	<b>(28,935)</b>
<b>Total comprehensive income for the period</b>		<b>877,361</b>	<b>497,350</b>

The accompanying notes on pages 11 to 22 are an integral part of these consolidated interim condensed financial statements.

## Consolidated Condensed Statement of Profit or Loss and Other Comprehensive Income for the 3 months ended 31 March 2017 (Unaudited)

*(in thousands of Russian roubles, except share and per share data)*

	Notes	For the three months ended 31 March	
		2017	2016
<b>Profit attributable to:</b>			
Owners of the Group		893,824	526,280
Non-controlling interests		(9)	5
<b>Profit for the period</b>		<b>893,815</b>	<b>526,285</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Group		877,370	497,345
Non-controlling interests		(9)	5
<b>Total comprehensive income for the period</b>		<b>877,361</b>	<b>497,350</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (in Russian roubles)		0.0092	0.0052
Weighted average number of ordinary shares in issue	9	95,785,923,138	95,785,923,138

General Director

Director for economy and finance

Chief Accountant

19 May 2017

		
		A.V. Letyagin
		
		P.V. Shiryayev
		
		I.G. Zhdanova

## Consolidated Condensed Statement of Financial Position as at 31 March 2017 (Unaudited)

*(in thousands of Russian roubles)*

	Notes	31 March 2017	31 December 2016
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	34,810,622	35,218,505
Intangible assets		140,023	162,980
Deferred tax assets		9,193	8,664
Investment in securities and other financial assets		555,254	560,105
Other non-current assets		791,762	733,220
<b>TOTAL NON-CURRENT ASSETS</b>		<b>36,306,854</b>	<b>36,683,474</b>
<b>CURRENT ASSETS</b>			
Accounts receivable and prepayments		14,416,388	14,171,681
Income tax receivable		856	34,050
Inventories		964,699	807,153
Other current assets		813,196	748,726
Cash and cash equivalents		483,354	361,619
<b>TOTAL CURRENT ASSETS</b>		<b>16,678,493</b>	<b>16,123,229</b>
<b>TOTAL ASSETS</b>		<b>52,985,347</b>	<b>52,806,703</b>

The accompanying notes on pages 11 to 22 are an integral part of these consolidated interim condensed financial statements.

## Consolidated Condensed Statement of Financial Position as at 31 March 2017 (Unaudited)

(in thousands of Russian roubles)

		31 March 2017	31 December 2016
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Share capital	9	9,578,592	9,578,592
Retained earnings		1,384,715	490,891
Common control combination reserve	9	10,457,284	10,457,284
Other reserves		239,230	255,684
<b>EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY</b>		<b>21,659,821</b>	<b>20,782,451</b>
Non – controlling interests		338	347
<b>TOTAL EQUITY</b>		<b>21,660,159</b>	<b>20,782,798</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term loans and borrowings	8	13,979,493	14,319,493
Post-employment benefit obligations		1,783,046	1,762,441
Deferred tax liabilities		1,828,728	1,804,707
Other non-current liabilities		2,270,922	2,026,003
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>19 862 189</b>	<b>19,912,644</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable and advances received		9,195,257	10,263,436
Income tax payable		219,787	139,088
Current taxes payable		1,554,730	1,175,449
Current loans and borrowings	8	465,805	473,809
Current provisions		27,420	59,479
<b>TOTAL CURRENT LIABILITIES</b>		<b>11,462,999</b>	<b>12,111,261</b>
<b>TOTAL LIABILITIES</b>		<b>31,325,188</b>	<b>32,023,905</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>52,985,347</b>	<b>52,806,703</b>

General Director

Director for economy and finance

Chief Accountant

19 May 2017



Letyagin A.V.

Shiryaev P.V.

Zhdanova I.G.



The accompanying notes on pages 11 to 22 are an integral part of these consolidated interim condensed financial statements.



## Consolidated Condensed Statement of Changes in Equity for the three months ended 31 March 2017 (Unaudited)

(in thousand of Russian roubles)

### Attributable to equity holders of the Company

	Share capital	Retained earnings	Merger reserve	Other reserves	Total	Non-controlling interests	Total equity
<b>Balance at 1 January 2016</b>	9,578,592	313,499	10,457,284	212,632	20,562,007	355	20,562,362
<b>Total comprehensive income for the period</b>	–	526,280	–	–	526,280	5	526,285
<i>Income for the period</i>	–	–	–	(28,935)	(28,935)	–	(28,935)
<i>Other comprehensive income for the period</i>	0	526,280	0	(28,935)	497,345	5	497,350
<b>Transactions with owners, recorded directly in equity</b>	–	–	–	–	–	–	–
Dividends to equity holders	–	–	–	–	–	–	–
<b>Balance at 31 March 2016</b>	9,578,592	839,779	10,457,284	183,697	21,059,352	360	21,059,712

<b>Balance at 1 January 2017</b>	9,578,592	490,891	10,457,284	255,684	20,782,451	347	20,782,798
<b>Total comprehensive income for the period</b>	–	893,824	–	–	893,824	(9)	893,815
<i>Profit for the period</i>	–	–	–	(16,454)	(16,454)	–	(16,454)
<i>Other comprehensive loss</i>	–	893,824	–	(16,454)	877,370	(9)	877,361
<b>Transactions with owners, recorded directly in equity</b>	–	–	–	–	–	–	–
Dividends to equity holders	–	–	–	–	–	–	–
<b>Balance at 31 March 2017</b>	9,578,592	1,384,715	10,457,284	239,230	21,659,821	338	21,660,159

## Consolidated Condensed Statement of Cash Flows

for the three months ended 31 March 2017 (Unaudited)

(in thousands of Russian roubles)

	3 months ended 31 March	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
<b>Profit for the period</b>	<b>893,815</b>	<b>526,285</b>
<i>Adjustments for:</i>		
Income tax expense	247,906	184,906
Finance costs, net	351,020	416,483
Depreciation and amortisation	1,028,563	1,003,012
Profit from disposal of PPE and intangible assets	(1,658)	(4,148)
Provision for impairment of accounts receivable	102,838	59,115
Reversal of provision for inventory obsolescence	(76)	(132)
Other non-cash transactions	36,417	17,925
<b>Operating cash flows before changes in working capital and provisions</b>	<b>2,658,825</b>	<b>2,203,446</b>
<i>Working capital changes</i>		
Accounts receivable and prepayments	(334,945)	(1,101,644)
Inventories	(157,470)	(78,045)
Other current assets	(64,470)	(227,866)
Provisions and employee benefit obligations	—	16,540
Accounts payable, advances received and provisions	484,011	453,382
<b>Cash flows from operations before income tax and interest paid</b>	<b>2,585,951</b>	<b>1,265,813</b>
Interest paid	(229,115)	(286,132)
Income tax paid	(110,411)	(77,126)
Contributions to defined benefit plan	(37,181)	(13,976)
<b>Net cash generated by operating activities</b>	<b>2,209,244</b>	<b>888,579</b>

The accompanying notes on pages 11 to 22 are an integral part of these consolidated interim condensed financial statements.



## Consolidated Condensed Statement of Cash Flows

for the three months ended 31 March 2017 (Unaudited)

(in thousands of Russian roubles)

	3 months ended 31 March	
	2017	2016
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from disposal of property, plant and equipment and intangible assets	40	78
Purchase of property, plant and equipment, intangible assets and other non-current assets	(1,598,349)	(841,530)
Interest received	9,845	15,399
<b>Net cash used in investing activities</b>	<b>(1,588,464)</b>	<b>(826,053)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Received loans and borrowings	8,619,300	1,108,300
Repayments of loans and borrowings	(9,118,300)	(1,147,418)
Dividends paid	(45)	–
<b>Net cash used in financing activities</b>	<b>(499,045)</b>	<b>(39,118)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>121,735</b>	<b>23,408</b>
<b>Cash and cash equivalents at 1 January</b>	<b>361,619</b>	<b>71,247</b>
<b>Cash and cash equivalents at 31 March</b>	<b>483,354</b>	<b>94,655</b>

## **Notes to the Consolidated Interim Condensed Financial Statements**

**for the 3 months ended 31 March 2017 (Unaudited)**

## 1. THE GROUP AND ITS OPERATIONS

### Background

Public Joint Stock Company Interregional Distribution Grid Company of North-West (herein “IDGC North-West” or the “Company”) was established in December 2004 in accordance with the laws of the Russian Federation. The Company was formed during the process of re-organization of OJSC RAO “UES of Russia” (“RAO UES”) as the owner and operator of the electric power transmission and distribution grid in the North-West Region of Russia.

The registered office of the Company is Sobornaya str. 31, Gatchina, Leningrad region, 188300, Russian Federation. The Company’s main offices are at Constitution Square, building 3 “A”, Saint Petersburg, 196247, Russian Federation.

### Formation of the Group

On 27 April 2007 the Board of Directors of RAO UES approved the structure of the Interregional Distribution Grid Companies. Under the approved structure, the IDGC North-West was incorporated with seven branches, located in the Arkhangelsk, Vologda, Syktyvkar, Novgorod, Pskov, Petrozavodsk, Murmansk and subsidiaries (the “Group”). The principal subsidiaries are listed in Note 4.

The branches were formed on the basis of seven Regional Distribution Grid Companies: OJSC “Arkhenenergo”, OJSC “Vologdaenergo”, OJSC “AEK Komienergo”, OJSC “Novgorodenergo” OJSC “Pskovenergo”, OJSC “Karelenenergo”, OJSC “Kolenergo”, all of which were subsidiaries of RAO UES prior to the formation of the Group. The merger was a business combination among entities under common control, and has been accounted for using the predecessor accounting method (see Note 2).

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred its 55.38% of the Company’s shares to OJSC “Holding IDGC”, a state-controlled entity. On 4 April 2013 in accordance with decision of Extraordinary General stockholders meeting dated 23 March 2013 OJSC “Holding IDGC” was renamed to OJSC “Russian Grids” to comply with decree of President of the Russian Federation dated 22 November 2012 No. 1567 “About open joint stock company “Russian Grids”. On July 17 2015 Joint Stock Company Russian Grids was made a new trade name with alterations regarding organizational and legal form - Rosseti, Public Joint Stock Company (PJSC ROSSETI).

### Relations with the state and current regulations

In accordance with legislation of Russian Federation, the Group’s tariffs are controlled by Regional Energy Commissions. Federal Antimonopoly Service of the Russian Federation puts through control of establishment of a tariffs.

The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the Group could raise capital required to maintain and expand current capacity.

### Russian business environment

The Group’s operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. 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 management's assessment.

## **2. BASIS OF PREPARATION**

### **Statement of compliance**

These consolidated interim condensed financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*. It does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2016.

### **Base of measurement**

The consolidated IFRS financial statements are prepared on the historical cost basis except for investments available-for-sale that are stated at fair value; property, plant and equipment was revalued as at 1 January 2007 by an independent appraiser to determine deemed cost as part of the first-time adoption of IFRSs.

### **Basis of preparation**

These financial statements are prepared based on the statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of ending balances, results of operations and cash flows in accordance with International Financial Reporting Standards (IFRS).

### **Functional and presentation currency**

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

### **Use of estimates**

In the application of the Group's accounting policies management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing this consolidated interim condensed financial report significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended 31 December 2016.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in this consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2015.

### 4. GROUP SUBSIDIARIES

The Group's consolidated financial statements include the following subsidiaries that are incorporated in Russian Federation:

<b>Subsidiary</b>	<b>Principal activity</b>	<b>Ownership as at 31 March 2017, %</b>	<b>Ownership as at 31 December 2016, %</b>
JSC Pskovenergosbyt	Sale of electricity	100	100
OJSC Pskovenergoagent	Collection services	100	100
OJSC Energoservice North-West	Electricity metering services	100	100
Lesnaya skazka	Recreation	98	98

### 5. OPERATING SEGMENTS

The Management Board of the Company has been determined as the Group chief operating decision maker ("CODM").

The Group's primary activity is the provision of electricity transmission services and connection services within regions of the Russian Federation.

The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation (branches of IDGC North-West) and segments relating to other activities (represented by separate legal entities).

The Management Board regularly evaluates and analyses financial information of the segments reported in the statutory financial statements of respective segment entities on at least a quarterly basis.

In accordance with the requirements of IFRS 8 based on the information on segment revenue, profit before income tax and total assets reported to Management Board, the following reportable segments were identified:

- ▶ Transmission Segments – Arkhenergo, Vologdaenergo, Karelenegero, Kolenergo, Komienergo, Novgorodenergo and Pskovenergo;
- ▶ Energy Retail Segment – Pskovenergosbyt;
- ▶ Other Segments – other Group companies.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those used in the consolidated financial statements prepared under IFRSs.

The major differences relate to:

- ▶ difference in the measurement of property, plant and equipment;
- ▶ recognition of employee benefits obligations; and
- ▶ difference in accounting for deferred tax.

Reconciliation of items measured as reported to the Management Board with similar items in these consolidated financial statements include those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

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

Segment results for the 3 months ended 31 March 2017 are presented below:

	Transmission						Energy Retail				Total		
	Arkh energo	Vologd aenergo	Karel energo	Kol energo	Komi energo	Novgorod energo	Pskov energo	Kolenergo	Novgorod energo	Pskov- energosbyt		Other Segments	Unallocated
<b>Revenues</b>													
Power transmitting	1,440,157	1,915,703	2,130,076	1,929,678	1,885,600	1,154,934	335,182	-	-	-	-	-	10,791,330
Technological connection to power network	23,329	5,385	3,047	2,755	349,488	2,124	6,735	-	-	-	-	-	392,863
Sale of electricity	-	-	-	-	-	-	-	-	-	1,726,803	-	-	1,726,803
Other revenue	87,202	16,865	40,223	5,897	13,950	6,166	7,740	-	-	-	1,408	-	179,451
Intersegment revenue	-	-	13	-	-	-	813,071	-	-	181,099	78,725	-	1,072,908
<b>Total revenues</b>	<b>1,550,688</b>	<b>1,937,953</b>	<b>2,173,359</b>	<b>1,938,330</b>	<b>2,249,038</b>	<b>1,163,224</b>	<b>1,162,728</b>	<b>-</b>	<b>-</b>	<b>1,907,901</b>	<b>80,133</b>	<b>-</b>	<b>14,163,354</b>
<b>Profit/(loss) before income tax</b>	<b>24,765</b>	<b>276,372</b>	<b>132,474</b>	<b>102,909</b>	<b>268,690</b>	<b>170,749</b>	<b>106,422</b>	<b>-</b>	<b>-</b>	<b>2,836</b>	<b>520</b>	<b>-</b>	<b>1,085,738</b>
As at 31 March 2017:													
<b>Total assets</b>	<b>9,525,762</b>	<b>11,377,715</b>	<b>4,657,539</b>	<b>5,674,308</b>	<b>13,394,933</b>	<b>6,406,136</b>	<b>5,369,899</b>	<b>923,960</b>	<b>872</b>	<b>964,958</b>	<b>79,436</b>	<b>2,092,367</b>	<b>60,467,883</b>
<i>Including property, plant and equipment</i>	<i>3,882,104</i>	<i>8,752,628</i>	<i>3,242,719</i>	<i>3,541,725</i>	<i>11,244,507</i>	<i>5,050,481</i>	<i>4,466,151</i>	<i>-</i>	<i>-</i>	<i>94</i>	<i>6,441</i>	<i>32,078</i>	<i>40,218,927</i>



Segment results for the 3 months ended 31 March 2016 are presented below:

	Transmission					Energy Retail				Total			
	Arkh energo	Vologd aenergo	Karel energo	Kol energo	Komi energo	Novgorod energo	Pskov energo	Kolenergo	Novgorod energo		Pskov- energobyt	Other Segments	Unallocated
<b>Revenues</b>													
Power transmitting	1,358,879	1,842,453	2,031,556	1,870,159	1,954,469	1,023,087	63,525	-	-	-	-	-	10,144,128
Technological connection to power network	16,218	8,180	9,198	827	19,888	4,344	5,272	-	-	-	-	-	63,927
Sale of electricity	-	-	-	-	-	-	-	-	-	1,839,569	-	-	1,839,569
Other revenue	94,609	11,170	39,724	5,531	14,059	6,188	8,874	-	-	-	1,552	-	181,707
Intersegment revenue	-	-	13	-	-	-	994,643	-	-	179,751	254,434	-	1,428,841
<b>Total revenues</b>	<b>1,469,706</b>	<b>1,861,803</b>	<b>2,080,491</b>	<b>1,876,517</b>	<b>1,988,416</b>	<b>1,033,619</b>	<b>1,072,314</b>	<b>-</b>	<b>-</b>	<b>2,019,320</b>	<b>255,986</b>	<b>-</b>	<b>13,658,172</b>
<b>Profit/(loss) before income tax</b>	<b>(97,758)</b>	<b>171,452</b>	<b>161,370</b>	<b>195,870</b>	<b>151,820</b>	<b>(32,506)</b>	<b>89,913</b>	<b>-</b>	<b>-</b>	<b>2,952</b>	<b>339</b>	<b>-</b>	<b>643,452</b>
As at 31 March 2016:													
<b>Total assets</b>	<b>9,364,261</b>	<b>12,206,402</b>	<b>6,177,831</b>	<b>6,655,580</b>	<b>13,093,103</b>	<b>6,390,332</b>	<b>5,323,187</b>	<b>1,654,917</b>	<b>3,865</b>	<b>900,251</b>	<b>99,525</b>	<b>1,704,081</b>	<b>63,573,335</b>
<i>Including property, plant and equipment</i>	<i>3,936,178</i>	<i>8,990,459</i>	<i>3,554,046</i>	<i>3,429,958</i>	<i>10,731,088</i>	<i>5,358,002</i>	<i>4,514,375</i>	<i>-</i>	<i>-</i>	<i>140</i>	<i>13,351</i>	<i>42,693</i>	<i>40,570,290</i>



The reconciliation of profit before income tax measured as reported to the Management Board with similar item in these consolidated interim condensed financial statements is presented below:

	<b>For the three months ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
<b>Segment results - profit before income tax</b>	<b>1,085,738</b>	<b>643,452</b>
Adjustment for depreciation of property, plant and equipment	109,841	85,724
Adjustments for financial costs	(33,073)	(43,581)
Accrued salaries and wages	35	7,153
Other adjustments	(20,820)	18,443
<b>Profit before income tax per Consolidated Condensed Statement of Profit or Loss and Other Comprehensive Income</b>	<b>1,141,721</b>	<b>711,191</b>

## 6. REVENUE

	<b>For the three months ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
Power transmitting	10,791,330	10,144,130
Sale of electricity	1,721,418	1,839,220
Technological connection to power network	392,863	63,926
Other revenue	184,871	182,062
<b>Total revenue</b>	<b>13,090,482</b>	<b>12,229,338</b>

## 7. OPERATING EXPENSES

	<b>For the three months ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
Power transmitting services	3,976,303	3,642,432
Salaries and other personnel expenses	3,044,786	2,882,065
Electricity purchased for resale	1,040,261	937,006
Depreciation and amortization of non-current assets	1,028,563	1,003,012
Electric purchases to cover losses	1,425,494	1,540,187
Raw materials and supplies	390,269	358,797
Network and equipment repair services	64,678	60,197
Taxes other than income tax	133,199	126,766
Energy resources for own needs	126,283	122,363
Telecommunication and information services	45,280	46,148
Impairment of trade and other receivables	102,838	59,115
Other operating expenses	480,107	466,437
<b>Total operating expenses</b>	<b>11,858,061</b>	<b>11,244,525</b>

## 8. PROPERTY, PLANT AND EQUIPMENT

	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
<i>Cost/Deemed cost</i>						
<b>Balance as at 1 January 2016</b>	<b>7,009,161</b>	<b>30,361,447</b>	<b>16,169,935</b>	<b>7,093,769</b>	<b>2,488,108</b>	<b>63,122,420</b>
Additions and transfers	15,653	22,953	3,375	5,486	930,767	978,234
Putting into operation	5,676	117,149	38,898	1,216	(162,939)	-
Disposals	(236)	(980)	(442)	(2,993)	(182,902)	(187,553)
<b>Balance as at 31 March 2016</b>	<b>7,030,254</b>	<b>30,500,569</b>	<b>16,211,766</b>	<b>7,097,478</b>	<b>3,073,034</b>	<b>63,913,101</b>
<b>Balance as at 1 January 2016</b>	<b>(2,407,812)</b>	<b>(15,005,625)</b>	<b>(6,034,748)</b>	<b>(4,063,212)</b>	<b>(137,158)</b>	<b>(27,648,555)</b>
Charge for the period	82,647	(459,387)	(255,087)	(184,784)	-	(981,905)
Impairment carry forward of losses	-	(11)	(14)	-	25	-
Disposals	235	782	297	2,371	-	3,685
<b>Balance as at 31 March 2016</b>	<b>(2,490,224)</b>	<b>(15,464,241)</b>	<b>(6,289,552)</b>	<b>(4,245,625)</b>	<b>(137,133)</b>	<b>(28,626,775)</b>
<b>Net book value as at 1 January 2016</b>	<b>4,601,349</b>	<b>15,355,822</b>	<b>10,135,187</b>	<b>3,030,557</b>	<b>2,350,950</b>	<b>35,473,865</b>
<b>Net book value as at 31 March 2016</b>	<b>4,540,030</b>	<b>15,036,328</b>	<b>9,922,214</b>	<b>2,851,853</b>	<b>2,935,901</b>	<b>35,286,326</b>
<i>Cost/Deemed cost</i>						
<b>Balance as at 1 January 2017</b>	<b>7,581,813</b>	<b>32,299,046</b>	<b>17,702,840</b>	<b>7,821,378</b>	<b>1,812,631</b>	<b>67,217,708</b>
Additions and Transfers	14,089	24,021	2,313	21,319	579,123	640,865
Putting into operation	3,054	112,631	28,517	22,146	(166,348)	-
Disposals	(740)	(2,650)	(1,447)	(3,730)	(43,311)	(51,878)
<b>Balance as at 31 March 2017</b>	<b>7,598,216</b>	<b>32,433,048</b>	<b>17,732,223</b>	<b>7,861,113</b>	<b>2,182,095</b>	<b>67,806,695</b>
<i>Accumulated depreciation and impairment</i>						
<b>Balance as at 1 January 2017</b>	<b>(2,837,232)</b>	<b>(17,184,799)</b>	<b>(7,119,344)</b>	<b>(4,759,794)</b>	<b>(98,036)</b>	<b>(31,999,205)</b>
Charge for the period	(82,577)	(463,846)	(268,557)	(189,139)	-	(1,004,119)
Impairment carry forward of losses	105,249	(166,646)	15,427	(1,037)	47,007	-
Disposals	644	1,549	1,442	3,489	126	7,250
<b>Balance as at 31 March 2017</b>	<b>(2,813,916)</b>	<b>(17,813,742)</b>	<b>(7,371,032)</b>	<b>(4,946,481)</b>	<b>(50,903)</b>	<b>(32,996,074)</b>
<b>Net book value as at 1 January 2017</b>	<b>4,744,581</b>	<b>15,114,247</b>	<b>10,583,496</b>	<b>3,061,584</b>	<b>1,714,597</b>	<b>35,218,505</b>
<b>Net book value as at 31 March 2017</b>	<b>4,784,299</b>	<b>14,619,307</b>	<b>10,361,192</b>	<b>2,914,632</b>	<b>2,131,192</b>	<b>34,810,622</b>

## 9. EQUITY

### **Basis of presentation of movements in equity**

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting, the principal component of the net equity recognized for the group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets.

### **Authorised, issued and fully paid share capital**

As at 31 March 2016 authorised and issued share capital comprised 95,785,923,138 ordinary shares (31 December 2016: 95,785,923,138) of which all ordinary shares were issued and fully paid. All shares have a par value of RUB 0.1.

### **Merger reserve**

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting, the principal component of net equity recognized for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Based on the application of predecessor accounting, the difference between the value of the share capital issued and the IFRS carrying values of the contributed assets and non-controlling interests was recorded as a merger reserve within equity.

### **Retained earnings and dividends**

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

In accordance with 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.

### **Voting rights of shareholders**

The holders of fully paid ordinary shares are entitled to one vote per share at the Company's annual and general shareholders' meetings.

### **Earnings per share**

Earnings per share were calculated using the weighted average number of ordinary shares. The Company has no dilutive potential ordinary shares; accordingly, diluted earnings per share are equal to basic earnings per share (At 31 March 2017 earnings per share was 0.0092 RUB, At 31 March 2016 – 0.0052 RUB).

## 10. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings and financial lease liabilities, which are measured at amortised cost.

	31 March 2017	31 December 2016
<b>Non-current liabilities</b>		
Unsecured bank loans	13,979,493	14,319,493
	<b>13,979,493</b>	<b>14,319,493</b>
<b>Current liabilities</b>		
Current portion of unsecured loans	–	151,610
Unsecured bank loans	465,805	322,199
	<b>465,805</b>	<b>473,809</b>

The Group raised the following bank loans during the 3 months ended 31 March 2017:

Amount	Interest rate	Maturity
350 000	11,90%	2017
2 719 300*	9,60-10,70%	2017
4 150 000*	9,60-10,44%	2018
1 000 000*	9,60%	2019
400 000*	9,80%	2020

The Group repaid the following significant bank facilities during the 6 months ended 31 March 2017:

	Amount
Loans*	8,759,300
Loans	359,000

\*- Loans from state-controlled entities.

## 11. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

### Control relationships

The Government of the Russian Federation, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Group. As at 31 March 2017 the Group was controlled by JSC Russian Grids, a state controlled entity (see Note 1).

### Transactions with state-controlled entities

In the course of its operating activities the Group is also engaged in significant transactions with state-controlled entities. Revenues and purchases from state-controlled entities are based on regulated tariffs where applicable, in other cases revenues and purchases are made at normal market prices.

Revenue from state-controlled entities for the 3 months ended 31 March 2017 constitute 10.49% (3 months ended 31 March 2016: 12.47%) of total Group revenue, including 8.39% (3 months ended 31 March 2016: 10.5%) of electricity transmission revenues.

Electricity transmission cost due to for state-controlled entities for the 6 months ended 31 March 2017 constitute 56.7% (3 months ended 31 March 2016: 54.28%) of total transmission costs.

Significant loans from state controlled entities are disclosed in Note 10.

## **Pricing policies**

Related party revenue for power transmitting is based on the tariffs determined by the Federal Service on Tariffs and the Regional Energy Commission.

## **12. COMMITMENTS AND CONTINGENCIES**

### **Political environment**

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection. Because of the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings, are not predictable.

### **Taxation contingencies in Russian Federation**

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

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

### **Litigation**

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business. In the opinion of management of the Group, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

### **Capital expenditure commitments**

As at 31 March 2017 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment of RUB 2,623,991 (as at 31 December 2016: RUB 1,690,094).

### **Environmental matters**

Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

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

### **Insurance policies**

The Russian insurance market is in the development stage and some forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, and land transport and purchased accident, health and medical insurance for employees. Furthermore, the Group has purchased civil liability coverage for operating entities with dangerous production units.

As at 31 March 2017 the Group has insured its industrial assets for the amount of RUB 47,394,526 (as at 31 December 2016: RUB 46,584,006 thousand). Also, as at 31 March 2017 the Group has insured vehicles below 10 years of age for the amount of RUB 566,313 (as at 31 December 2016: RUB 605,030).

### **13. FINANCIAL RISK MANAGEMENT**

During the period the Group had been exposed to the same risks as those which existed during the year ended 31 December 2016, and applied the same approach to financial risk management that was applied during the year ended 31 December 2016.