Auditor's Report

On the Consolidated financial statements of

Public Joint-Stock Company "Interregional Distribution Grid Company of Volga" and its subsidiaries

for the year 2016

March 2017

PJSC Interregional Distribution Grid Company of Volga

Consolidated financial statements

for the year ended 31 December 2016

Contents **Page**

Independent Auditors' Report	3
Consolidated Statement of Financial Position	9
Consolidated Statement of Profit or Loss and Other Comprehensive Income	10
Consolidated Statement of Cash Flows	11
Consolidated Statement of Changes in Equity	12
Notes to the Consolidated Financial Statements	13

RSM RUS LTD
4 Pudovkina street,
Moscow, 119285, Russia
T: +7 495 363 2848
F: +7 495 981 4121
E: mail@rsmrus.ru
www.rsmrus.ru

15. 03. 2017
№ РСМ-1696

INDEPENDENT AUDITOR'S REPORT

To: the Shareholders of PJSC "IDGC of Volga"

Audited entity:
Interregional Distribution Grid Company of Volga, Public Joint Stock Company (abbreviated name - **PJSC IDGC of Volga**);
Location: 42/44, Pervomayskaya Street, Saratov, 410031, the Russian Federation;
Primary state registration number – 1076450006280.

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 IDGC of Volga** 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 non-current assets

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 a value in use 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.

Therefore, the value in use for property, plant and equipment as at 31 December 2016 was determined using projected cash flows method. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment during the operating activities and upon disposal, to determine the recoverable amount of these assets.

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 value of property, plant and equipment, including information about uncertainties taken into consideration when making impairment test estimates.

Non-current assets are disclosed in Note 7 and 8 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 the Group's accounts receivable as at 31 December 2016, and because the management estimate of collectability of the receivables is based on the assumptions, in particular, forecasting financial solvency of the Group's customers.

We have performed procedures of evaluation of the adequacy of the Group's policy on reviewing accounts receivable and determining if provision for impairment should be established, as well as procedures of confirming the reasonableness of the estimates made by the management of the Group, including review of accounts receivable payments, review of maturity dates and overdue debts, review of customers' financial solvency.

We performed audit procedures in respect of information used by the Group to determine the impairment of accounts receivable, accounts receivable ageing structure, tested the accuracy of accrued provision based on the estimates documented by the management.

Accrued provision for impairment of accounts receivable is disclosed by the Group in Notes 11 and 29 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 19 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 28 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 — **N.A. Dantser**

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 – 21706004215

Manager responsible for the audit — **O.V. Andrienko**

Audit Certificate No. 02-000028. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Institute of Professional Auditors" dated 15 November 2011 No.182. Permanent award.

ORNZ in the Register of auditors and audit organizations – 21606060060

"РСМ РУСЬ"

PJSC "IDGC of Volga"

Consolidated statement of financial position

As at 31 December 2016

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	7	38,752,263	39,983,252
Intangible assets	8	153,003	157,488
Other non-current assets	9	660,247	674,211
Total non-current assets		**39,565,513**	**40,814,951**
Current assets			
Inventories	10	1,451,064	1,256,511
Income tax receivable		68,889	3,377
Trade and other receivables	11	7,575,273	6,855,016
Prepayments	12	153,345	148,082
Cash and cash equivalents	13	2,265,917	1,958,398
Total current assets		**11,514,488**	**10,221,384**
Total assets		**51,080,001**	**51,036,335**
Equity and liabilities			
Share capital	14	18,109,460	17,857,780
Reserve for issue of shares		470,920	66,860
Reserves		(771,520)	(780,713)
Retained earnings		13,616,531	11,041,379
Total equity		**31,425,391**	**28,185,306**
Non-current liabilities			
Deferred tax liabilities	24	2,633,864	3,699,849
Employee benefits	15	1,436,960	1,380,767
Loans and borrowings	16	8,380,000	7,700,000
Trade and other payables	17	787,591	540,108
Total non-current liabilities		**13,238,415**	**13,320,724**
Current liabilities			
Loans and borrowings	16	13,883	3,622,639
Trade and other payables	17	4,852,946	4,300,672
Provisions		21,391	40,984
Income tax payable		3,889	202,780
Other taxes payable	18	1,524,086	1,363,230
Total current liabilities		**6,416,195**	**9,530,305**
Total liabilities		**19,654,610**	**22,851,029**
Total equity and liabilities		**51,080,001**	**51,036,335**

These consolidated financial statements were approved by management on 14 March 2017 and were signed on its behalf by:

Deputy General Director for Economy and Finance
(by the power of attorney of 25th August 2016 No Д/16-350) — I.Yu. Puchkova

Chief Accountant — I.A. Tamlenova

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 47

PJSC "IDGC of Volga"

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2016

(in thousands of Russian Roubles, unless otherwise stated)

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Revenue	19	53,336,415	47,990,986
Operating expenses	20	(48,491,063)	(45,251,470)
Other income and expenses, net	22	331,576	177,750
Operating profit		**5,176,928**	**2,917,266**
Finance income	23	164,477	138,147
Finance costs	23	(1,164,310)	(1,353,535)
Profit before income tax		**4,177,095**	**1,701,878**
Income tax expense	24	(1,373,339)	(433,894)
Profit for the year		**2,803,756**	**1,267,984**
Other comprehensive (expense) / income *Items that will never be reclassified to profit or loss:*			
Remeasurements of defined benefit pension plans	15	(25)	(176,394)
Related income tax		9,218	21,600
Other comprehensive (expense) / income for the year, net of income tax		**9,193**	**(154,794)**
Total comprehensive income for the year		**2,812,949**	**1,113,190**
Earnings per share - basic and diluted (in Russian Roubles)	14	0.0156	0.0071

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 47.

PJSC "IDGC of Volga"

Consolidated statement of cash flows

For the year ended 31 December 2016

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Operating activities			
Profit before income tax		**4,177,095**	**1,701,878**
Adjustments for:			
Depreciation and amortisation	7, 8	4,516,680	4,795,300
Accrued allowance for impairment of accounts receivable		219,575	164,930
Finance costs	23	1,164,310	1,353,535
Finance income	23	(164,477)	(138,147)
Loss on/(profit from) disposal of property, plant and equipment		15,114	14,052
Accounts payable written-off	22	(4,059)	(13,661)
Other non-cash items		-	-
Operating profit before working capital changes and income tax paid		**9,924,238**	**7,877,887**
Working capital changes:			
Change in trade and other receivables		(976,832)	(627,721)
Change in prepayments		51,104	42,991
Change in inventories		(194,553)	(29,178)
Change of assets relating to employee benefit liabilities		19,398	(8,411)
Change in other non-current assets		2,087	3,021
Change in trade and other payables		548,127	(357,860)
Change in long-term liabilities		(61,843)	(75,328)
Change in provisions		26,654	48,887
Change in taxes payable other than income tax		160,858	327,307
Cash flows from operating activities before income tax and interest paid		**9,499,238**	**7,201,595**
Income tax		(2,705,445)	37,997
Interest paid		(1,118,755)	(1,354,877)
Net cash flows from operating activities		**5,675,038**	**5,884,715**
Investing activities			
Acquisition of property, plant and equipment		(2,924,341)	(2,638,696)
Proceeds from disposal of property, plant and equipment		18,712	2,053
Acquisition of intangible assets		(105,268)	(110,344)
Interest received	23	137,591	113,132
Net cash flows used in investing activities		**(2,873,306)**	**(2,633,855)**
Financing activities			
Received loans and borrowings		3,500,000	900,000
Repayment of loans and borrowings		(6,420,000)	(3,500,000)
Proceeds from shares issued		655,740	66,860
Dividends paid	14	(229,953)	(17,858)
Net cash flows used in financing activities		**(2,494,213)**	**(2,550,998)**
Net increase in cash and cash equivalents		**307,519**	**699,862**
Cash and cash equivalents at the year beginning	13	**1,958,398**	**1,258,536**
Cash and cash equivalents at the year end	13	**2,265,917**	**1,958,398**

PJSC "IDGC of Volga"

Consolidated statement of changes in equity

For the year ended 31 December 2016

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Share capital	Reserve for issue of shares	Reserves	Retained earnings	Total equity
Balance at 1 January 2015		17,857,780	-	(625,919)	9,789,624	27,021,485
Profit for the year		-	-	-	1,267,984	**1,267,984**
Other comprehensive income						
Revaluation of the defined benefit pension plans	15	-	-	(176,394)	-	**(176,394)**
Income tax expense in respect of other comprehensive income	15	-	-	21,600	-	**21,600**
Other comprehensive income for the year		-	-	**(154,794)**	-	**(154,794)**
Total comprehensive income for the year		-	-	**(154,794)**	**1,267,984**	**1,113,190**
Issue of shares		-	66,860	-	-	**66,860**
Dividends	14	-	-	-	(17,858)	**(17,858)**
Write off of unclaimed dividends declared payable		-	-	-	1,629	**1,629**
Balance at 31 December 2015		**17,857,780**	**66,860**	**(780,713)**	**11,041,379**	**28,185,306**
Balance at 1 January 2016		**17,857,780**	**66,860**	**(780,713)**	**11,041,379**	**28,185,306**
Profit for the year		-	-	-	2,803,756	**2,803,756**
Other comprehensive income						
Revaluation of the defined benefit pension plans	15	-	-	(25)	-	**(25)**
Income tax expense in respect of other comprehensive income	15	-	-	9,218	-	**9,218**
Other comprehensive loss for the year		-	-	**9,193**	-	**9,193**
Total comprehensive (loss) / income for the year		-	-	**9,193**	**2,803,756**	**2,812,949**
Issue of shares		251,680	404,060	-	-	**655,740**
Dividends	14	-	-	-	(230,764)	**(230,764)**
Write off of unclaimed dividends declared payable		-	-	-	2,160	**2,160**
Balance at 31 December 2016		**18,109,460**	**470,920**	**(771,520)**	**13,616,531**	**31,425,391**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 47

(in thousands of Russian Roubles, unless otherwise stated)

1. Background

(a) The Group and its operations

Public Joint-Stock Company "Interregional Distribution Grid Company of Volga" (hereafter, the "Company") and its subsidiaries (hereinafter together referred to as the "Group") comprise joint stock companies established and registered in accordance with the Civil Code of the Russian Federation. The Company was set up on 29 June 2007 based on Resolution of the sole founder (Order of OJSC "Russian Joint Stock Company "United Energy Systems of Russia" (hereinafter – "RAO UES") no. 191p of 22 June 2007) and pursuant to the decision of the Board of Directors of RAO "UES" on the participation in IDGC (minutes no. 250 of 27 April 2007).

The Company's registered office and location address is 42/44 Pervomayskaya Street, Saratov, Russian Federation, 410031.

The Group's principal activity is the provision of electricity transmission and distribution services and technological connection of customers to the electricity grid.

The Group's significant subsidiaries are:

Name	% share ownership	
	31 December 2016	**31 December 2015**
JSC Chuvashskaya avtotransportnaya kompaniya	99.99	99.99
JSC Sanatoriy-profilaktoriy Solnechny	99.99	99.99
JSC Sotsialnaya Sfera-M	100	100
JSC Energoservis Volgi	100	100

As at 31 December 2016 the Russian Government owned 88.75% of the voting ordinary shares (31 December 2015: 86.32%) and 7.01% of the preference shares of PJSC "Russian Grids", which in turn owned 68.08% of the Company's ordinary shares as at 31 December 2016 (31 December 2015: 67.63%).

The Government of the Russian Federation influences the Group's activities through setting power transmission and distribution tariffs.

(b) Russian Business environment

The Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the national economics and financial markets, which display the characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, 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 Company's management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

2. Basis of preparation

(a) Statement of compliance with IFRS

These consolidated financial statements (hereinafter, "Financial Statements") have been prepared in accordance with the requirements of the International Financial Reporting Standards ("IFRSs").

(b) Basis of preparation and basis of measurement

The Financial Statements are prepared on the historical cost basis except:

- Available-for-sale financial assets are stated at fair value;
- Property, plant and equipment and construction-in-progress were revalued to determine their deemed cost as part of the adoption of IFRSs as at 1 January 2006.

(c) Functional and presentation currency The national currency of the Russian Federation is the Russian rouble ("RUB"), which is the functional currency for the Company and its subsidiaries and the currency in which these Financial Statements are presented. All financial information presented in Russian roubles has been rounded to the nearest thousand.

(d) Use of judgments, estimates and assumptions

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

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

- Note 7 Property, plant and equipment
- Note 11 Trade and other receivables
- Note 15 Employee benefits
- Note 29 Financial instruments

In preparing these consolidated financial statements judgments made by management in applying the Group's accounting policies were the same as those that applied to the consolidated financial statements for the year 2015. The key sources of estimation uncertainty were also the same as those identified during the preparation of the consolidated financial statements for the year 2015.

(e) Reclassification of comparatives

Certain comparative amounts for the previous year have been reclassified to conform to the current year's presentation. Reclassification of comparatives did not influence the Group financial position.

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. 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.

(ii) Business combinations between entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised.

The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the consolidated financial statements of the Group's controlling shareholder. The components of equity of the acquired entities are added to the same components of equity within the Group, except that any share capital of the acquired entities is recognized as part of share premium. Any cash paid for the acquisition is recognized directly in equity.

(iii) 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. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses and also of changes in equity of equity accounted investees, after adjustments to align the accounting policies of the investees with those of the Group. When the Group's share of losses of an equity accounted investee exceeds its interest in the investee, the carrying amount of that interest (including any non-current investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation to make payments or has made payments on behalf of the associate.

(iv) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of 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 recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

The Group has the following non-derivative financial assets: loans and receivables 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 recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.Cash and cash equivalents comprise cash on hand and bank accounts with original maturities of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(h)(i) and foreign currency differences on available-for-sale debt instruments (see Note 3(b)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be reliably measured are stated at initial cost less impairment losses.

(ii) Non-derivative financial liabilities

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

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

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

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land plots, are measured at cost less accumulated depreciation and impairment losses. The deemed cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing of assets and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss for the year.

(ii) Subsequent costs

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

(iii) Depreciation

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

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

Type of property, plant and equipment	Useful lives (in years)
Buildings	15-50
Electricity transmission networks	5-20
Equipment for electricity transformation	5-20
Other property, plant and equipment	1-30

(e) Intangible assets

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

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

Amortisation is recognised in profit or loss for the year on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are 3 to 10 years.

(f) Leased assets

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

The Group's leases, other than finance leases, are treated as operating leases, and leased assets are not recognised on the Group's statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognised in profit or loss on a straight line basis over the lease term.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the selling expenses.

(h) Impairment losses

(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, negative changes in the payment status of borrowers or issuers within the Group, economic conditions that are associated 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 an objective evidence of impairment.

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

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss for the year. However, impairment losses on equity investments are not reversed through profit or loss. Any subsequent recovery in the fair value of impaired available-for-sale equity investments is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of other assets in the unit (group of units) on a pro rata basis.

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

(i) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees under labor agreements. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans

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

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

(iii) Other non-current employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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

(j) Provisions

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

(k) Revenue

(i) Electricity transmission and sale services

Revenue from transmission and sales of electricity is recognised in profit or loss based on an act of services rendered containing the physical volume of electricity distributed or sold. The act is prepared based on a monthly report of electricity consumption (prepared in physical volumes) for each customer. The tariffs for transmission and sales of electricity on regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Russian Federal Service on Tariffs. On 21 July 2015, the Federal Service on Tariffs was abolished and its powers were transferred to the Federal Antimonopoly Service.

(ii) Technological connection to power networks services

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

Revenue for technological connection to the power network is recognised either at the full amount at the moment of actual connection of the customer to the network or by reference to the stage of completion.

(iii) Other services

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

(l) Government subsidies

Government subsidies that compensate the Group for low electricity tariffs are recognised in profit or loss in the same periods in which the respective revenue is earned.

(m) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised 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.

"Contingent" (i.e. depending on future events) lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(ii) Social payments

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the statement of comprehensive income as incurred.

(n) Finance income and costs

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

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

Foreign currency gains and losses are reported on a net basis.

(o) Income tax expense

Income tax expense comprises current income tax and deferred tax. Current and deferred income tax is recognised in profit or loss for the year except to the extent that it relates to a business combination, or transactions recognised directly in equity.

Current income tax is the expected tax payable or receivable on the taxable income or tax loss for the period, calculated using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: 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 taxable loss; temporary differences relating to investments in subsidiaries and joint venture to the extent that it is probable that they will not reverse in the foreseeable future and there is a control over the period and amount of the disposal of the Group's assets; taxable temporary differences arising upon initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or they can realise the tax assets and settle the tax liabilities simultaneously.

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

(p) Earnings per share

Basic earnings per share 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.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segment's results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Segment financial information is presented in the Financial Statements in a manner similar to those provided to the Management Board. The amount of each segment item reported is the measure reported to the Management Board. Total amounts of segment information are reconciled to those in the Financial Statements (Note 6).

(r) Application of new Standards

The Group has not adopted any new standards or amendments that would have a significant impact on the consolidated financial statements.

(s) New standards and interpretations not yet adopted

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

- IFRS 9 *Financial Instruments* was issued in phases and ultimately replaced IAS 39 *Financial Instruments: Recognition and Measurement.*

  IFRS 9 brings together the new requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment IFRS 9 replaces the 'incurred loss' model used in IAS 39, with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group acknowledges that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements.

- IFRS 15 *Revenue from Contracts with Customers.* IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures in the financial statements. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related IFRS interpretations on Revenue recognition. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

- IFRS 16 *Leases.* IFRS 16 is a single guidance for lease accounting and contains requirements for related disclosures in the financial statements. The new standard replaces IAS 17 *Leases* and the related IFRS interpretations on lease. IFRS 16 is partly or fully retrospectively effective for annual periods beginning on or after 1 January 2019, with earlier application permitted under the simultaneous application of IFRS 15.

The Group is currently assessing the impact of these standards on the consolidated financial information. The Group does not intend to adopt these standards early.

- Amendments to IAS 7 – *Disclosure Initiative* are effective for annual periods beginning on or after 1 January 2017, require companies to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.
- Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses* are effective for annual periods beginning on or after 1 January 2017.
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions* are effective for annual periods beginning on or after 1 January 2018.

These amendments to standards are not expected to have any impact or will have an insignificant impact on the Group's consolidated financial information.

4. Determination of fair value

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

(a) Fair value hierarchy

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted market prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

(b) Investments in equity and debt instruments

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their stock exchange quotations (bid prices) at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(d) Non-derivative financial liabilities

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

5. Financial risk management

(a) Overview of main approaches

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

- credit risk;
- liquidity risk;
- market risk.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor 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 training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers.

Prepayments for connection services are routinely included in the customer service contracts.

The customer base for electricity transmission services for each of the Group's entities is limited to several distribution companies and a small number of large manufacturing enterprises. Payments are tracked regularly and electricity transmission customers are advised of any failures to submit timely payments.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables. The main component of this allowance is a specific provision that relates to individually significant exposures.

(ii) Cash and cash equivalents

The Group attempts to minimise the credit risk exposure for current and deposit accounts with banks by placing temporarily available funds only with the banks that are lenders to the Group.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The objective of liquidity risk management is to ensure that the Group will always have sufficient liquidity to meet its liabilities when due.

(d) Market risk

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

(i) Interest rate risk

The Group's interest rate risk arises from short-term and long-term loans and borrowings. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (loans and borrowings with fixed rate) or their future cash flows (loans and borrowings with variable rate). The majority of interest rates on current and non-current loans and borrowings are fixed. The Group's operating profits and cash flows from operating activities are largely not dependent on the changes in market interest rates.

(e) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the level of dividends to ordinary shareholders. Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

Neither the Company nor any of the Group's entities are subject to externally imposed capital requirements.

6. Operating segments

The Management Board of the Company has been determined as the Group Chief Operating Decision-Maker.

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

The Management Board regularly evaluates and analyses the financial information of the segments reported in the statutory financial statements of respective segments prepared in accordance with the Russian Accounting Rules.

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

- Electricity Transmission Segments – Republic of Mordovia, Chuvashia Republic, Orenburg region, Penza region, Samara region, Saratov region, Ulianovsk region – branches of PJSC "IDGC of Volga";
- Other Segments – other Group companies.

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

6. Operating segments (continued)

(i) Information about reportable segments for the year ended 31 December 2016

	Electricity Transmission								
	Saratov region	Orenburg region	Samara region	Penza region	Ulianovsk region	Chuvashia Republic	Mordovia Republic	Other segments	Total
Revenue:									
Electricity transmission	11,784,055	10,891,150	11,718,460	6,754,730	5,316,298	3,581,917	2,641,280	-	**52,687,890**
Connection to the electricity networks	51,492	47,600	41,829	48,406	14,576	22,385	96,322	-	**322,610**
Other revenue	34,535	110,405	19,735	13,502	6,004	11,561	4,858	117,753	**318,353**
Total segment revenue from external customers	**11,870,082**	**11,049,155**	**11,780,024**	**6,816,638**	**5,336,878**	**3,615,863**	**2,742,460**	**117,753**	**53,328,853**
Inter-segment revenue	-	373	-	-	-	-	-	122,359	**122,732**
Total	**11,870,082**	**11,049,528**	**11,780,024**	**6,816,638**	**5,336,878**	**3,615,863**	**2,742,460**	**240,112**	**53,451,585**
Segment operating profit/(loss)	403,927	543,266	1,790,476	578,714	441,798	266,700	228,449	655	**4,253,985**
Segment finance income	29,438	30,529	33,390	17,331	8,413	6,868	9,251	1,968	**137,188**
Segment finance costs	(423,913)	(26,323)	(70,353)	(81,771)	(6,295)	(215,775)	(221,915)	-	**(1,046,345)**
Segment profit/(loss) before income tax	**9,452**	**547,472**	**1,753,513**	**514,274**	**443,916**	**(57,793)**	**(15,785)**	**2,623**	**3,344,828**
Segment depreciation and amortisation	1,336,677	1,144,663	1,480,428	496,708	295,808	358,247	317,937	16,588	**5,447,056**
Segment assets	16,020,531	11,309,238	16,442,229	5,458,084	5,247,467	4,714,523	3,467,540	227,706	**62,887,318**
Including property, plant and equipment	14,235,203	9,717,232	13,382,083	4,184,638	3,477,603	3,201,805	2,710,837	108,125	**51,017,526**
Segment liabilities	5,309,606	1,715,300	2,002,873	1,507,325	1,003,317	2,568,989	2,766,446	24,820	**16,898,676**
Segment capital expenditures	**651,542**	**605,292**	**821,342**	**320,128**	**203,050**	**229,238**	**338,483**	**21,219**	**3,190,294**

(in thousands of Russian Roubles, unless otherwise stated)

6. Operating segments (continued)

(ii) Information about reportable segments for the year ended 31 December 2015

	Electricity Transmission								
	Saratov region	Orenburg region	Samara region	Penza region	Ulianovsk region	Chuvashia Republic	Mordovia Republic	Other segments	Total
Revenue:									
Electricity transmission	10,594,205	10,130,392	10,255,337	6,370,313	4,213,851	3,312,259	2,432,071	-	**47,308,428**
Connection to the electricity networks	62,557	112,703	56,132	35,001	25,939	19,347	36,250	-	**347,929**
Other revenue	21,618	121,502	17,985	15,254	5,240	12,357	10,079	117,174	**321,209**
Total segment revenue from external customers	**10,678,380**	**10,364,597**	**10,329,454**	**6,420,568**	**4,245,030**	**3,343,963**	**2,478,400**	**117,174**	**47,977,566**
Inter-segment revenue	-	398	-	-	-	-	-	126,152	**126,550**
Total	**10,678,380**	**10,364,995**	**10,329,454**	**6,420,568**	**4,245,030**	**3,343,963**	**2,478,400**	**243,326**	**48,104,116**
Segment operating profit/(loss)	60,919	247,386	760,363	471,036	216,868	(27,662)	128,827	1,582	**1,859,319**
Segment finance income	26,514	24,321	24,334	15,911	8,678	5,183	5,818	2,368	**113,127**
Segment finance costs	(435,927)	(118,497)	(240,252)	(96,887)	(2,436)	(131,897)	(207,498)	-	**(1,233,394)**
Segment profit/(loss) before income tax	**(348,495)**	**153,210**	**544,445**	**390,060**	**223,110**	**(154,376)**	**(72,853)**	**3,951**	**739,052**
Segment depreciation and amortisation	1,385,701	1,284,117	1,510,917	536,131	290,008	367,998	332,676	16,043	**5,723,591**
Segment assets	16,989,902	11,713,916	16,575,801	5,548,939	4,661,319	4,822,488	3,245,552	230,756	**63,788,673**
Including property, plant and equipment	14,912,918	10,185,181	14,025,452	4,356,686	3,562,894	3,328,161	2,716,057	104,849	**53,192,198**
Segment liabilities	5,776,944	2,254,109	3,906,644	1,869,507	611,956	2,597,204	2,680,813	28,152	**19,725,329**
Segment capital expenditures	**334,749**	**488,991**	**649,979**	**401,997**	**155,371**	**205,761**	**273,589**	**12,912**	**2,523,349**

(in thousands of Russian Roubles, unless otherwise stated)

6. Operating segments (continued)

(iii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

Reconciliation of key segment items measured as reported to the Management Board with similar items in these Consolidated Financial Statements is presented in the tables below.

Reconciliation of revenues:

	Year ended 31 December 2016	Year ended 31 December 2015
Total revenue for reportable segments	**53,451,585**	**48,104,116**
Inter-segment revenue elimination	(122,732)	(126,550)
Other adjustments	7,562	13,420
Revenue per Statement of profit or loss and other comprehensive income	**53,336,415**	**47,990,986**

Reconciliation of profit before tax:

	Year ended 31 December 2016	Year ended 31 December 2015
Total profit before tax for reportable segments	**3,344,828**	**739,052**
Adjustment for property, plant and equipment	1,025,695	1,011,289
Adjustments on intangible assets	125	7,709
Retirement benefit obligations recognition	(48,681)	(53,800)
Other adjustments	(144,872)	(2,372)
Profit before tax per Statement of profit or loss and other comprehensive income	**4,177,095**	**1,701,878**

Reconciliation of depreciation and amortisation:

	Year ended 31 December 2016	Year ended 31 December 2015
Total depreciation for reportable segments	**5,447,056**	**5,723,591**
Adjustment for depreciation of property, plant and equipment	(1,029,772)	(1,015,593)
Adjustment for amortisation of intangible assets	95,775	83,657
Other adjustments	3,621	3,645
Depreciation and amortisation per Statement of profit or loss and other comprehensive income	**4,516,680**	**4,795,300**

Reconciliation of total assets:

	31 December 2016	31 December 2015
Total assets for reportable segments	**62,887,318**	**63,788,673**
Unallocated assets	410,643	384,407
Recognition of assets related to employee benefits	500,581	493,094
Discounting of financial assets	(690)	(1,047)
Inter-segment balances	(19,908)	(17,979)
Elimination of investments in subsidiaries	(101,529)	(101,529)
Adjustment for deferred tax asset	(223,626)	(110,978)
Adjustment for net book value of property, plant and equipment	(12,368,228)	(13,393,923)
Other adjustments	(4,560)	(4,383)
Assets per Statement of financial position	**51,080,001**	**51,036,335**

(in thousands of Russian Roubles, unless otherwise stated)

6. Operating segments (continued)

Reconciliation of property, plant and equipment:

	31 December 2016	31 December 2015
Total property, plant and equipment for reportable segments	**51,017,526**	**53,192,198**
Unallocated property, plant and equipment	104,013	120,217
Advances for acquisition of property, plant and equipment	(1,048)	2,688
Adjustment for net book value of property, plant and equipment	(12,368,228)	(13,393,923)
Other adjustments	-	62,072
Property, plant and equipment per Statement of Financial Position	**38,752,263**	**39,983,252**

Reconciliation of total liabilities:

	31 December 2016	31 December 2015
Total liabilities of reportable segments	**16,898,676**	**19,725,329**
Adjustment due to different principles for deferred tax calculation	1,400,885	1,254,465
Employee retirement benefits obligations	579,897	1,000,127
Unallocated short-term employee benefits obligations	835,672	339,656
Unallocated provisions for litigations and unresolved claims	21,391	40,984
Intersegment balances	(19,908)	(17,979)
Other adjustments	(62,003)	508,447
Liabilities per statement of financial position	**19,654,610**	**22,851,029**

Reconciliation of capital expenditures:

	31 December 2016	31 December 2015
Total capital expenditures of reportable segments	**3,190,294**	**2,523,349**
Unallocated capital expenditures	9,760	10,168
Capitalized interest	45	577
Prepayments for acquisition of property, plant and equipment	59,227	(108,583)
Other adjustments	(9,964)	(15,936)
Capital expenditures (Note 7)	**3,249,362**	**2,409,575**

The Group performs its activities in the Russian Federation. In 2016 and 2015, the Group had three major customers - distribution companies in three regions of the Russian Federation - with individual turnovers over 10% of total Group revenues. Revenues from these customers are reported by the transmission segments operating in the regions where these distribution companies are located: Samara, Saratov and Orenburg region. Total amounts of revenues for these three major customers for the year ended 31 December 2016 were RUB 7,918,009 thousand in Samara (2015: RUB 6,162,917 thousand); RUB 6,933,692 thousand in Saratov (2015: RUB 6,252,715 thousand); RUB 6,040,414 thousand in Orenburg (2015: RUB 5,414,728 thousand).

(in thousands of Russian Roubles, unless otherwise stated)

7. Property, plant and equipment

	Land plots and buildings	Electricity transmission networks	Equipment for electricity transformation	Construction in progress	Other property, plant and equipment	Total
Initial Cost						
Balance as at 1 January 2015	**15,079,506**	**24,343,100**	**15,035,180**	**1,655,081**	**12,680,610**	**68,793,477**
Additions	7,597	2,700	5,058	2,245,023	149,197	**2,409,575**
Transfers	1,320,350	1,047,283	157,303	(2,849,171)	324,235	**-**
Disposals	(15,346)	(19,665)	(8,263)	(21,359)	(67,262)	**(131,895)**
Balance as at 31 December 2015	**16,392,107**	**25,373,418**	**15,189,278**	**1,029,574**	**13,086,780**	**71,071,157**
Balance as at 1 January 2016	**16,392,107**	**25,373,418**	**15,189,278**	**1,029,574**	**13,086,780**	**71,071,157**
Additions	15,427	4,193	10,493	2,880,973	338,276	**3,249,362**
Transfers	596,550	754,176	476,280	(2,416,626)	589,620	**-**
Disposals	(3,268)	(5,635)	(425)	(47,137)	(79,873)	**(136,338)**
Balance as at 31 December 2016	**17,000,816**	**26,126,152**	**15,675,626**	**1,446,784**	**13,934,803**	**74,184,181**
Accumulated depreciation						
Balance as at 1 January 2015	**(4,154,799)**	**(11,514,463)**	**(4,501,093)**	**-**	**(6,296,762)**	**(26,467,117)**
Accrued depreciation	(937,512)	(1,304,019)	(778,243)	-	(1,669,838)	**(4,689,612)**
Disposals	5,850	15,084	6,265		41,625	**68,824**
Balance as at 31 December 2015	**(5,086,461)**	**(12,803,398)**	**(5,273,071)**	**-**	**(7,924,975)**	**(31,087,905)**
Balance as at 1 January 2016	**(5,086,461)**	**(12,803,398)**	**(5,273,071)**	**-**	**(7,924,975)**	**(31,087,905)**
Accrued depreciation	(877,341)	(1,343,165)	(871,595)	-	(1,318,046)	**(4,410,147)**
Disposals	2,050	4,713	251		59,120	**66,134**
Balance as at 31 December 2016	**(5,961,752)**	**(14,141,850)**	**(6,144,415)**	**-**	**(9,183,901)**	**(35,431,918)**
Net book value						
At 31 December 2015	**11,305,646**	**12,570,020**	**9,916,207**	**1,029,574**	**5,161,805**	**39,983,252**
At 31 December 2016	**11,039,064**	**11,984,302**	**9,532,211**	**1,446,784**	**4,750,902**	**38,752,263**

As at 31 December 2016 construction in progress includes prepayments for supply of property, plant and equipment of RUB 64,092 thousand (as at 31 December 2015: RUB 2,688 thousand).

As at 31 December 2016 construction in progress includes construction materials of RUB 58,261 thousand (as at 31 December 2015: RUB 62,072 thousand).

In 2016 borrowing costs totalling RUB 62,700 thousand with a capitalisation rate of 10.03%-11.13% (in 2015: RUB 124,951 thousand with a capitalization rate of 8.28%-11.10%) were included in the cost of property, plant and equipment and consisted of interest expenses on loans.

In 2016 depreciation of property, plant and equipment in the amount of RUB 3,220 thousand was capitalized in construction in progress (in 2015: RUB 6,681 thousand).

The determination of the recoverable amount of property, plant and equipment

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

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

Therefore the value in use for property, plant and equipment as at 31 December 2016 was determined using projected cash flows method. This method considers the future net cash flows expected to be generated by the property, plant and equipment in the process of operating activities and upon disposal, to determine the recoverable amount of the assets.

Cash-generating units are determined by the Group based on the geographical location of the branches and subsidiaries which are the smallest identifiable groups of assets that generate cash inflows regardless of other assets of the Group.

The following key assumptions were used in assessing the recoverable amount of the cash-generating units:

- Cash flows were projected based on the provisions of the Methodology guidelines for the testing of power grid assets for impairment (approved by Order of PJSC "Russian Grids" no. 583p of 15 December 2015) and forecast data for the period up to 2021.
- Forecasted cash flows were prepared for the period 2017-2021 (for all CGUs) based on the best estimate of the management of PJSC "IDGC of Volga" in respect of the electricity transmission volumes, operating expenses and capital expenditure, and tariffs approved by regulatory authorities for 2017, etc.;
- Source electricity transmission tariffs for the forecasted period were taken from business plans, adjusted and agreed by PJSC "Russian Grids", which were based on tariff models prepared taking into account annual average growth of tariffs for electricity transmission services (in accordance with the forecast for the social and economic development of the Russian Federation for 2017 and the planning period of 2018-2019);
- Forecasted electricity transmission volumes for all cash-generating units have been determined on the basis of annual business plans of PJSC "IDGC of Volga" for 2017-2021;
- Projected cash flows were discounted to their present value using the nominal weighted average cost of capital of 10.91%;
- Growth rate of the net cash flows in the post-forecast period amounted to 3.3% for all CGUs.

As a result of testing as at 31 December 2016, no impairment of fixed assets was identified.

As a result of testing as at 31 December 2015, no impairment of fixed assets was identified.

(in thousands of Russian Roubles, unless otherwise stated)

8. Intangible assets

	Computer software	Research and development	Other	Total
Initial Cost				
Balance as at 1 January 2015	**328,662**	**24,040**	**-**	**352,702**
Additions	98,907	11,492	6,757	**117,156**
Disposals	(88,405)	(9,010)	-	**(97,415)**
Balance as at 31 December 2015	**339,164**	**26,522**	6,757	**372,443**
Balance as at 1 January 2016	**339,164**	**26,522**	6,757	**372,443**
Additions	86,010	266	18,995	**105,271**
Disposals	(84,113)	-	-	**(84,113)**
Balance as at 31 December 2016	**341,061**	**26,788**	**25,752**	**393,601**
Accumulated amortisation				
Balance as at 1 January 2015	**(188,249)**	**(4,940)**	-	**(193,189)**
Amortisation accrued for the year	(105,240)	(6,819)	(310)	**(112,369)**
Disposals	88,350	2,253	-	**90,603**
Balance as at 31 December 2015	**(205,139)**	**(9,506)**	**(310)**	**(214,955)**
Balance as at 1 January 2016	**(205,139)**	**(9,506)**	**(310)**	**(214,955)**
Amortisation accrued for the year	(93,556)	(5,960)	(10,240)	**(109,756)**
Disposals	84,113	-	-	**84,113**
Balance as at 31 December 2016	**(214,582)**	**(15,466)**	**(10,550)**	**(240,598)**
Net book value				
At 31 December 2015	**134,025**	**17,016**	**6,447**	**157,488**
At 31 December 2016	**126,479**	**11,322**	**15,202**	**153,003**

9. Other non-current assets

	31 December 2016	31 December 2015
Assets related to the Non-state Pension Fund	500,581	493,094
Trade receivables	28,744	30,192
Other receivables	130,813	150,849
Available-for-sale investments	109	76
Total	**660,247**	**674,211**

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

Movements in the value of assets related to pension plans during 2016 and 2015 were as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Value of assets at 31 December	**493,094**	**501,505**
Return on plan assets	26,885	24,569
Contributions by employer	70,491	71,481
Other movements in accounts	16,941	5,295
Benefits paid	(106,830)	(109,756)
Value of assets at 31 December	**500,581**	**493,094**

(in thousands of Russian Roubles, unless otherwise stated)

Assets related to pension plans and defined benefit plans are administered by non-state pension fund of JSC "NPF electricity". These assets are not assets of the fund, as under the terms of existing agreements with the fund the Group is able to use the above contributions to reduce future contributions or funding other compensation plans or transfer to another fund on their own initiative.

Information about impairment losses related to accounts receivable is disclosed in Note 29.

10. Inventories

	31 December 2016	31 December 2015
Raw materials and supplies	1,451,157	1,256,604
Allowance for impairment of inventories	(93)	(93)
Total	**1,451,064**	**1,256,511**

11. Trade and other receivables

	31 December 2016	31 December 2015
Trade receivables	8,243,512	7,494,984
Taxes receivable	9,869	8,559
Other receivables	188,076	141,012
VAT receivable	82,146	72,411
Less: Allowance for impairment of trade receivables	(878,141)	(784,261)
Less: Allowance for impairment of other receivables	(70,189)	(77,689)
Total	**7,575,273**	**6,855,016**

Information about impairment losses related to trade and other receivables is disclosed in Note 29.

12. Prepayments

	31 December 2016	31 December 2015
Prepayments	161,111	157,662
Less: Allowance for impairment of prepayments	(7,766)	(9,580)
Total	**153,345**	**148,082**

13. Cash and cash equivalents

	31 December 2016	31 December 2015
Cash at bank and in hand	2,246,522	199,351
Cash equivalents	19,395	1,759,047
Total	**2,265,917**	**1,958,398**

All cash and cash equivalents are denominated in Russian Roubles. Cash equivalents represent bank deposits with original maturities less than three months mainly under interest rate to 4.00–10.60 %.

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

(in thousands of Russian Roubles, unless otherwise stated)

14. Equity

Share capital

	31 December 2016	31 December 2015
Number of ordinary shares authorised, issued and fully paid	181,094,601,146	178,577,801,146
Par value (in RUB)	0.1	0.1
Total share capital (in RUB)	**18,109,460,115**	**17,857,780,115**

Dividends paid and declared

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. As at 31 December 2016 the Company's retained earnings, including the profit for the year, comprised RUB 7,404,993 thousand (31 December 2015: RUB 6,265,065 thousand).

In June 2016 General Meeting of Shareholders of the Company declared dividends in the amount of RUB 0.0012742732 per ordinary share for the year 2015. Total dividends amounted to RUB 230,764 thousand (2015: RUB 17,858 thousand).

Additional issue of shares

On 27 November 2015 an Extraordinary General Meeting of Shareholders of PJSC "IDGC of Volga" approved an increase in the Company's share capital through issuance of 10,685,233,931 additional ordinary shares with a par value of 0.1 roubles each under an open subscription. The approved offering price was RUB 0.1. This share issuance was registered by the Central Bank of the Russian Federation on 17 December 2015. Advances received as prepayment for share issue as at 31 December 2015 in the amount of RUB 66,860 thousand were recognised as a reserve for issue of shares within equity.

According to the extract from the register of securities as of 11 August 2016, issued by the Central Bank of the Russian Federation (Bank of Russia), the authorized share capital was increased by RUB 251,680 thousand. The changes are registered in the Company's Charter by making an entry on 9 September 2016 by the Interdistrict Inspectorate of the Federal Tax Service of Russia No. 19 for the Saratov Region in the Unified State Register of Legal Entities.

On 30 September 2016 an Extraordinary General Meeting of Shareholders of PJSC "IDGC of Volga" approved an increase in the Company's share capital through issuance of 8,996,857,669 additional ordinary shares with a par value of 0.1 roubles each under an open subscription. The approved offering price was RUB 0.1. This share issuance was registered by the Central Bank of the Russian Federation on 01 November 2016. Advances received as prepayment for share issue as at 31 December 2016 in the amount of RUB 470,920 thousand were recognised as a reserve for issue of shares within equity. All shares were acquired by the parent company.

Earnings per share

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

	Year ended 31 December 2016	Year ended 31 December 2015
Weighted average number of ordinary shares issued	179,361,722	178,577,801
Profit attributable to the shareholders	2,803,756	1,267,984
Weighted average earnings per ordinary share – basic (in RUB)	0.0156	0.0071

(in thousands of Russian Roubles, unless otherwise stated)

15. Employee benefits

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

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

The sum of the expected payments under long-term employee benefits plans for the year 2017 amounted to RUB 162,983 thousand, including:

- defined benefit pension plans, including non-state pension provision of employees: RUB 149,230 thousand;
- other long-term employee benefit plans of RUB 13,753 thousand.

As at 31 December 2016, 21,694 employees of the Group received pension and social support and 7,317 unemployed retirees received financial aid (as at 31 December 2015: 21,699 employees and 7,121 retirees).

The table below summarises the amounts of defined benefit plans recognised in the Financial Statements as at 31 December 2016 and 31 December 2015.

The amounts of benefit obligations recognised in the consolidated statement of financial position are as follows:

	31 December 2016	31 December 2015
Net value of post-employment benefit plan obligations	1,290,205	1,246,312
Net value of other long-term employee benefit plan obligations	146,755	134,455
Net obligation reflected in the statement of financial position	**1,436,960**	**1,380,767**

The expenses recognized in profit or loss in the statement of profit or loss and other comprehensive income are as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Employee service cost	92,647	56,117
Remeasurement of other long-term employee benefit obligations	(42)	21,561
Interest expense	118,008	120,718
	210,613	**198,396**

Changes in actuarial losses/gains were as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Net value of payment obligation	**1,436,960**	**1,380,767**
Actuarial (gains) / losses at beginning of year	**176,393**	**(127,200)**
Gains from changes in demographical actuarial assumptions	11,487	(2,870)
Loss / (gain) on changes in financial actuarial assumptions	(35,457)	135,395
Loss on experience adjustment	23,995	43,868
Actuarial losses / (gains) at end of year	**25**	**176,393**

(in thousands of Russian Roubles, unless otherwise stated)

Movements in the remeasurement of liability recognized in other comprehensive income during the reporting period:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Remeasurement at 1 January	**858,620**	**682,226**
Movement in the remeasurement	25	176,394
Remeasurement at 31 December	**858,645**	**858,620**

Movements in the net liabilities of the employee benefit plans are as follows:

	Post-employment benefits	Other long-term benefits	Total change in the net liabilities of the employee benefit plans
At 1 January 2015	**1,055,287**	**103,697**	**1,158,984**
Current service cost	46,036	10,081	56,117
Interest expense	109,702	11,016	120,718
Remeasurement:			
(Gain) / loss on changes in demographical actuarial assumptions	(2,870)	451	(2,419)
Loss on changes in financial actuarial assumptions	135,395	11,702	147,097
Loss on experience adjustment	43,868	9,408	53,276
Contributions to the plan	(141,106)	(11,900)	(153,006)
At 31 December 2015	**1,246,312**	**134,455**	**1,380,767**
At 1 January 2016	**1,246,312**	**134,455**	**1,380,767**
Current service cost	56,481	13,229	69,710
Past service cost	22,937		22,937
Interest expense	106,420	11,588	118,008
Remeasurement:			
(Gain) / loss on changes in demographical actuarial assumptions	11,487	1,549	13,036
Loss on changes in financial actuarial assumptions	(35,457)	(3,107)	(38,564)
Loss on experience adjustment	23,995	1,516	25,511
Contributions to the plan	(141,970)	(12,475)	(154,445)
At 31 December 2016	**1,290,205**	**146,755**	**1,436,960**

	31 December 2016	31 December 2015
Employee benefit plan obligations	(1,436,960)	(1,380,767)
Fair value of assets (Note 9)	500,581	493,094
Total	**(936,379)**	**(887,673)**

The weighted average duration of the post-employment benefit plan obligations and other long-term benefits as at 31 December 2016 was 9.66 years and 10.61 years, respectively. The expected contributions to the post-employment benefit plans and other long-term benefits in 2017 are RUB 149,230 thousand and RUB 13,753 thousand, respectively.

(in thousands of Russian Roubles, unless otherwise stated)

Principal actuarial assumptions are as follows:

Financial actuarial assumptions

	31 December 2016	31 December 2015
Discount rate (nominal)	8.50%	9.50%
Inflation rate	4.70%	6.00%
Future salary increases (nominal)	4.70%	6.00%

Financial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The average period over which the Group obligations are to be settled is 9.76 years including:

- for defined benefit plans, including non-state pension provision: 9.66 years;
- for other long-term employee benefit plans: 10.61 years.

Demographic actuarial assumptions

	31 December 2016	31 December 2015
Expected retirement age		
Male	60	60
Female	55	55
Employee turnover	7%	7%
Mortality table	2011_adjusted	2011_adjusted

Assumptions have been based on 2011 Russian mortality table modified with the following ratios based on Group's statistics of the mortality of plan members both during and after employment: 70% for plan males during employment, 80% for plan females during employment and 20% for plan males after employment, 25% for plan females after employment.

The expected employee turnover is based on historical data and is about 5.2% for employees who have been working for up to 32.5 years and is reduced to 2.6% for employees who have been working for 32.5 years and more.

The sensitivity of the total pension liabilities to changes in the key actuarial assumptions is presented below:

	Change in assumption	Impact on liability	
Discount rate	Increase / decrease by 0.5%	Decrease/ Increase by	4.04%
Future salary increases	Increase / decrease by 0.5%	Increase / decrease by	0.94%
Future benefits increases (inflation)	Increase / decrease by 0.5%	Increase / decrease by	3.25%
Employee turnover	Increase / decrease by 10%	Decrease/ Increase by	1.52%
Mortality level	Increase / decrease by 10%	Decrease/ Increase by	0.97%

The above sensitivity analysis is based on the method of changes of each actuarial assumption while holding all other assumptions constant. When calculating the sensitivity of the present value of liabilities, to the key actuarial assumptions the same method has been applied as when assessing the present value of liabilities (the projected unit credit method) recognized in the statement of financial position.

(in thousands of Russian Roubles, unless otherwise stated)

16. Loans and borrowings

Non-current loans and borrowings

	Effective interest rate,%	Currency	Year of maturity	31 December 2016	31 December 2015
Non-current loans					
Unsecured bank loans	9.95 – 11.00	RUB	2017-2019	8,380,000	7,700,000
Total				**8,380,000**	**7,700,000**

Loans and borrowings represent credit lines.

Current loans and borrowings

	31 December 2016	31 December 2015
Current loans and borrowings	-	3,600,000
Interest payable	13,883	22,639
Total	**13,883**	**3,622,639**

All loans listed above are loans with fixed interest rate.

The effective interest rate is the market interest rate applicable to the loan at the date of its receipt.

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

As at 31 December 2016, the Group has credit lines with a limit debt totalling RUB 21.0 billion, while the amount of free limit on open but unused credit lines amounted to RUB 8.4 billion. The Group does not have a limitation on the use of these credit lines.

As at 31 December 2016 and 31 December 2015, all the Group's loans and borrowings were unsecured.

The Group's exposure to currency, interest rate and liquidity risk is disclosed in Note 29.

17. Trade and other payables

Non-current liabilities

Non-current liabilities are represented by advances from customers and clients.

Current liabilities

	31 December 2016	31 December 2015
Trade payables	3,062,218	3,044,622
Payables to employees	1,285,443	756,765
Advances from customers and clients	458,596	451,928
Other payables	46,689	47,357
Total	**4,852,946**	**4,300,672**

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

18. Other taxes payable

	31 December 2016	31 December 2015
Value added tax payable	1,031,526	919,922
Payments to social funds	214,313	193,451
Property tax payable	154,739	133,601
Other taxes payable	123,508	116,256
Total	**1,524,086**	**1,363,230**

(in thousands of Russian Roubles, unless otherwise stated)

19. Revenue

	Year ended 31 December 2016	Year ended 31 December 2015
Electricity transmission	52,687,890	47,308,428
Connection to electricity networks services	322,610	347,929
Other revenue	325,915	334,629
Total	**53,336,415**	**47,990,986**

Other revenues are comprised of repair, installation, maintenance services, rent services, transport services.

20. Operating expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Electricity transmission	19,512,590	18,482,298
Personnel costs (Note 21)	11,420,679	10,220,964
Purchased electricity	7,056,267	6,259,628
Depreciation and amortisation	4,516,680	4,795,300
Expenses on materials	1,890,622	1,931,415
Taxes other than income tax	1,142,534	617,532
PPE repair and maintenance costs	441,225	423,831
Electricity for own needs	460,599	410,028
Rent	373,403	384,564
Security services	217,775	271,651
Software and support services	196,117	146,569
Insurance	169,687	168,347
Accrued allowance for impairment of trade, other receivables and advances	217,762	164,930
Consulting services	12,633	13,646
Social expenditures and charity expenses	7,657	7,275
Bank services	1,859	2,739
Other expenses	852,974	950,753
Total	**48,491,063**	**45,251,470**

21. Personnel costs

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries	8,735,996	7,836,313
Payment to social funds	2,592,078	2,306,973
Expense in respect of post-employment defined benefit plan	92,605	77,678
Total	**11,420,679**	**10,220,964**

22. Other (expenses) / income, net

	Year ended 31 December 2016	Year ended 31 December 2015
Reimbursement from contractors	319,488	168,906
Accounts payable written-off	4,059	13,661
Gain on the disposal of property, plant and equipment	3,277	243
Other income / (expenses), net	4,752	(5,060)
Total	**331,576**	**177,750**

(in thousands of Russian Roubles, unless otherwise stated)

23. Finance income and costs

	Year ended 31 December 2016	Year ended 31 December 2015
Finance income		
Interest income	164,076	137,701
Amortisation of discount on financial assets	357	418
Other income	44	28
Total finance income	**164,477**	**138,147**
Finance costs		
Interest expense	(1,046,300)	(1,232,817)
Expenses in respect of defined benefit plans	(106,420)	(109,702)
Expenses in respect of other long-term employee benefits	(11,588)	(11,016)
Other costs	(2)	-
Total finance costs	**(1,164,310)**	**(1,353,535)**
Total, net	**(999,833)**	**(1,215,388)**

24. Income tax

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax accrued	1,247,792	243,035
Tax adjustments for prior periods	1,182,314	6
Deferred income tax expense	(1,056,767)	190,853
Income tax expense	**1,373,339**	**433,894**

The Group's applicable income tax rate according to the Tax Law of the Russian Federation is 20%.

In May 2016, income tax for the period 2011-2012 was additionally accrued at the amount of RUB 766,407 thousand. The recalculation was made in connection with the exclusion by the tax authority of the expenses for the reconstruction and modernization of facilities related to mobilization training from non-operating expenses. The reason for such exclusion is the absence of a mobilization plan approved by the Company in accordance with the prescribed procedure.

In December 2016, income tax for the period 2008-2010 was additionally accrued at the amount of RUB 417,907 thousand. The recalculation was made in connection with the specification of the lists of works on mobilization training, the expenses of which are not subject to compensation from the budget. As a result, the Group increased the tax value of property, plant and equipment, that resulted in a decrease in deferred tax liabilities of RUB 790,840 thousand.

Reconciliation of the amount calculated at the current tax rate, and the amount of the actual income tax expense is disclosed below:

	Year ended 31 December 2016	Year ended 31 December 2015
Profit before income tax	**4,177,095**	**1,701,878**
Income tax at applicable tax rate	835,419	340,376
Tax effect of items which are not deductible or taxable for taxation purposes	146,446	93,512
Income tax adjustments for prior years	1,182,314	6
Tax effect of change in tax base of property, plant and equipment	(790,840)	-
Total income tax expense	**1,373,339**	**433,894**

(in thousands of Russian Roubles, unless otherwise stated)

Deferred tax assets and liabilities

As at 31 December 2016 deferred tax assets and liabilities are attributable to the following items:

	31 December 2016	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2015
Accounts payable	172,076	92,618	-	79,458
Employee benefit obligations	102,707	(9,053)	9,218	102,542
Other current assets	19,690	16,058	-	3,632
Deferred tax assets	**294,473**	**99,623**	**9,218**	**185,632**
Property, plant and equipment	(2,715,397)	865,446	-	(3,580,843)
Intangible assets	(5,112)	653	-	(5,765)
Inventories	(232)	11,107	-	(11,339)
Assets related to the Non-State Pension Fund	(100,116)	(1,496)	-	(98,620)
Trade and other receivables	(107,480)	81,434	-	(188,914)
Deferred tax liabilities	**(2,928,337)**	**957,144**	**-**	**(3,885,481)**
Total deferred income tax liabilities	**(2,633,864)**	**1,056,767**	**9,218**	**(3,699,849)**

As at 31 December 2015 deferred tax assets and liabilities are attributable to the following items:

	31 December 2015	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2014
Accounts payable	79,458	17,185	-	62,273
Employee benefit obligations	102,542	(9,239)	21,600	90,181
Other current assets	3,632	3,306	-	326
Tax loss carry-forward	-	(187,427)	-	187,427
Deferred tax assets	**185,632**	**(176,175)**	**21,600**	**340,207**
Property, plant and equipment	(3,580,843)	32,079	-	(3,612,922)
Intangible assets	(5,765)	(5,765)	-	-
Inventories	(11,339)	6,233	-	(17,572)
Assets related to the Non-State Pension Fund	(98,620)	1,681	-	(100,301)
Trade and other receivables	(188,914)	(48,906)	-	(140,008)
Deferred tax liabilities	**(3,885,481)**	**(14,678)**	**-**	**(3,870,803)**
Total deferred income tax liabilities	**(3,699,849)**	**(190,853)**	**21,600**	**(3,530,596)**

(in thousands of Russian Roubles, unless otherwise stated)

25. Related parties

(a) Control relationships

As at 31 December 2016 and 31 December 2015, PJSC "Russian Grids" was the parent company of the Group.

Transactions with the parent company are disclosed below:

	Turnovers for the Year ended 31 December 2016	Turnovers for the Year ended 31 December 2015
Revenue:		
Other sales	1,086	1,086
Operating expenses:		
Expenses on services for organizing the operation and development of UES	(249,827)	(241,958)

	31 December 2016	31 December 2015
Payables on transactions with related parties	(14,169)	(81,029)

The party with ultimate control over the Company is the Government of the Russian Federation, which holds the majority of the voting rights in PJSC "Russian Grids".

The majority of the Group's related party transactions are with the subsidiaries of former RAO UES and other state controlled entities.

The Group did not recognize any bad debt allowance in respect of settlements with the parent company.

(b) Transactions with entities under control of the parent

Transactions with the Parent's subsidiaries and associates were as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue:		
Rental income	59	955
Other sales	15	1,585
Operating expenses:		
Electricity transmission for FGC UES	(10,153,536)	(9,814,961)
Rent	(2,286)	-
PPE repairs and maintenance services	-	(30)
Other expenses	(20,198)	(20,933)

	31 December 2016	31 December 2015
Receivables:		
From operations with FGC UES	10,335	13,495
From operations with other companies under common control	3,199	87,274
Payables:		
From operations with FGC UES	(1,005,195)	(943,140)
From operations with other companies under common control	(1,734)	(761)

Revenues from related party transactions are based on current market prices.

(in thousands of Russian Roubles, unless otherwise stated)

(c) Transactions with state controlled entities

In the course of its operating activities, the Group enters into transactions with state-controlled entities. Prices for electricity transmission are determined based on the tariffs approved by the Government of the Russian Federation. Bank loans are provided to the Group based on market rates.

Revenue from state-controlled entities for the year ended 31 December 2016 constitutes 17.8% (2015: 17.9%) of total revenue, including 17.7% (2015: 17.9%) of electricity transmission revenues.

Electricity transmission expenses occurred by operations with state-controlled entities for the year ended 31 December 2016 constitute 13.0% (2015: 15.0%) of total electricity transmission expenses.

Interest expense accrued on loans from PJSC Sberbank of Russia for the year ended 31 December 2016 amounted to 100% (2015: 100%) of total interest accrued.

(d) Transactions with management and close family members

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

Remuneration is paid to members of the Board of Directors and top management for their services in full time management positions. The remuneration is made up of a contractual salary, non-cash benefits, and performance bonuses depending on results for the period according to the Company's Russian statutory financial statements and social security contributions.

Members of the Board of Directors and the top management of the Group received the following remuneration:

	Year ended 31 December 2016		Year ended 31 December 2015	
	Members of Board of Directors	Top management	Members of Board of Directors	Top management
Salaries and bonuses	20,195	65,775	17,211	66,913

The amount of the pension obligations attributable to the Members of the Board of Directors and to the Top management of the Group on 31 December 2016 was RUB 579 thousand (31 December 2015: RUB 7,516 thousand).

26. Operating leases

Estimated amount of rent for the assets in accordance with the signed lease agreements are as follows:

	31 December 2016	31 December 2015
Less than one year	172,976	186,505
Between one year and five years	470,692	615,048
More than five years	2,300,896	2,676,977
Total	**2,944,564**	**3,478,530**

The property received by the Group on the rights of operating leases involves land plots owned by the local authorities.

The land plots leased by the Group are the territories on which power lines, equipment for electricity transformation and other assets are located. Lease payments are reviewed regularly to reflect market rentals. Some contracts for land lease are concluded for 49 years, other contracts are concluded for one year with prolongation. In accordance with contracts for land lease the land title does not pass. After contract term expiration it can be terminated. The rent paid to the landlord of the land is increased to market rent at regular intervals, and the Group does not participate in the value of the land, it was determined that substantially all the risks and rewards of the land are with the landlord. As such, the Group determined that the land leases are operating leases, and not financial leases.

During the year ended 31 December 2016, RUB 373,403 thousand (2015: RUB 384,564 thousand) of operating lease payments was recognized in the statement of comprehensive income.

(in thousands of Russian Roubles, unless otherwise stated)

Lease payments under lease agreements where the Company is a lessor are as follows:

	31 December 2016	31 December 2015
Less than one year	29,636	22,458
Between one year and five years	74,629	64,216
More than five years	17,850	28,306
Total	**122,115**	**114,980**

Lease payments are reviewed regularly to reflect market rentals.

27. Commitments

Capital commitments

As at 31 December 2016 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment for RUB 841,548 thousand (as at 31 December 2015: RUB 547,592 thousand).

28. Contingencies

Insurance

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

Litigation

The Group is a party to certain legal proceedings arising in the ordinary course of business. The management does not believe than these matters will have a material adverse effect on the Group's financial position and operating results.

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

The Group 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.

Environmental matters

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

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

(in thousands of Russian Roubles, unless otherwise stated)

Other contingencies

The Group believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Federal Grid Company property ("last-mile") by the Group there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased "last-mile" grids and courts agree with the customers' view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim would have individual legal circumstances and respective estimation would be based on variety of assumptions and judgments, which makes it impracticable. The Group did not recognize as at the reporting date any provision for those actual and potential claims as it believes that it is not probable that related outflow of resources or decrease of benefits inflow will take place. The Group believes that expected changes in legislation will further reduce the level of risk.

29. Financial instruments

(a) Fair value hierarchy

Fair value is determined by market prices or by discounting the value of the relevant cash flows using market interest rates for identical financial instruments. As a result of the analysis, management concluded that the fair value of loans and borrowings is not materially different from their carrying value.

(b) Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is represented in the table below:

	31 December 2016	31 December 2015
Cash and cash equivalents	2,265,917	1,958,398
Trade and other receivables (net of allowance for doubtful debts)	7,514,641	6,807,555
Other non-current assets (net of allowance for doubtful debts)	109	76
Total	**9,780,667**	**8,766,029**

The Group's three most significant customers, regional distribution entities, account for RUB 2,868,804 thousand of trade receivables carrying amount at 31 December 2016 (three most significant customers at 31 December 2015: RUB 2,539,809 thousand).

The maximum exposure to credit risk for trade receivables (excluding other receivables) at the reporting date by type of customer was:

	31 December 2016	31 December 2015
Electricity transmission	7,807,241	7,022,098
Electricity and capacity sales	227,678	253,128
Connection services	83,772	21,804
Other revenue	153,565	228,147
Less: Allowance for doubtful debts	(878,141)	(784,261)
Total	**7,394,115**	**6,740,916**

(in thousands of Russian Roubles, unless otherwise stated)

The aging of trade and other receivables at the reporting date was:

	31 December 2016		31 December 2015	
	Gross	**Impairment**	**Gross**	**Impairment**
Not past due	5,025,510	(134)	4,682,754	(6,131)
Past due not more than 3 months	1,739,925	(74,513)	980,882	(12,279)
Past due 3-6 months	242,080	(90,401)	361,984	(13,604)
Past due 6-12 months	160,612	(74,370)	205,179	(20,380)
Past due more than one year	1,294,844	(708,912)	1,438,706	(809,556)
Total	**8,462,971**	**(948,330)**	**7,669,505**	**(861,950)**

The movements in the allowance for impairment of trade and other receivables during the year were as follows:

	31 December 2016	31 December 2015
Balance at 1 January	**861,950**	**832,372**
Charge of additional allowance for doubtful debts	325,431	184,591
Reversal of the allowance for doubtful debts	(105,860)	(29,233)
Accounts receivable written off through allowance	(133,191)	(125,780)
Balance at 31 December	**948,330**	**861,950**

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

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group monitors the risk of cash shortfalls by means of current liquidity planning. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The following are the contractual maturities of financial liabilities, including estimated interest payments and the impact of netting agreements:

As at 31 December 2016:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Financial liabilities						
Unsecured loans and borrowings	8,393,883	10,013,214	429,890	422,903	7,362,610	1,797,811
Trade and other payables	4,406,024	4,392,766	3,715,461	676,694	597	14
Total	**12,799,907**	**14,405,980**	**4,145,351**	**1,099,597**	**7,363,207**	**1,797,825**

(in thousands of Russian Roubles, unless otherwise stated)

As at 31 December 2015:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years
Financial liabilities						
Unsecured loans and borrowings	11,322,639	13,782,435	1,244,602	3,464,008	1,702,308	7,371,517
Trade and other payables	3,866,121	3,849,473	3,678,311	167,204	3,844	114
Total	**15,188,760**	**17,631,908**	**4,922,913**	**3,631,212**	**1,706,152**	**7,371,631**

(d) Foreign exchange risk

The Group primarily operates within the Russian Federation. The majority of the Group's operations are denominated in RUB.

(e) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long-term and short-term loans borrowings are fixed, these are disclosed in Note 16.

The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

(f) Fair values sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(g) Capital management

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

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

For the Group the debt-to-equity ratio at the end of the reporting and comparative periods was as follows:

	31 December 2016	31 December 2015
Total liabilities	19,654,610	22,851,029
Equity	31,425,391	28,185,306
Debt-to-equity ratio	**63%**	**81%**

For the year ended 31 December 2016 and for the year ended 31 December 2015 earnings before interest, tax, depreciation and amortisation (EBITDA) were the following:

	Year ended 31 December 2016	Year ended 31 December 2015
EBITDA	9,470,077	7,729,995

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

No Group's entity is subject to externally imposed capital requirements.

(h) Fair values

The Group Management believes that the fair value of other financial assets and financial liabilities approximates their carrying amounts.

30. Events after the reporting period

Events after the balance sheet date, which should be reflected in the consolidated financial statements for the reporting period, have not been identified.