

Consolidated financial statements of  
Public Joint Stock Company ROSSETI and its subsidiaries  
prepared in accordance with  
International Financial Reporting Standards  
for the year ended 31 December 2017  
with independent auditor's report

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Public Joint Stock Company "ROSSETI" (PJSC "ROSSETI")

### **Opinion**

We have audited the consolidated financial statements of PJSC "ROSSETI" and its subsidiaries (the Group), which comprise the Consolidated Statement of Financial Position as of 31 December 2017, 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 2017, 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.

### **Revaluation and impairment of property, plant and equipment**

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

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, making it impossible to use market-based approaches for determining its fair value. Consequently, the fair value of such items is primarily determined by the Group using depreciated replacement cost valuation method.

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

Information about property, plant and equipment, the manner of recognition and measurement of the Group's property, plant and equipment is provided in Notes 3, 4, 14 to the consolidated financial statements.

#### **Impairment of accounts receivable**

In our opinion, this matter was one of most significance in our audit due to significant balances of accounts receivable as at 31 December 2017. The management estimate of recoverability of accounts receivable is complex, largely subjective and based on the assumptions, in particular, forecasting financial solvency of the Group's counterparties.

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

Accrued allowance for impairment of accounts receivable is disclosed by the Group in Notes 10, 19 and 28 to the consolidated financial statements.

#### **Assessment of control and significant influence in respect of the Group entities**

In our opinion, this matter was one of most significance in our audit of the consolidated financial statements because in July, 2016 the Group lost control over the subsidiary OJSC "Nurenergo" following the court ruling. As a result, gain from loss of control over the subsidiary in the amount of RUB 12,669 mln. was recognized in the 2016 consolidated financial statements. In January, 2017 following the ruling of the court of appeal, the previous court decision was revoked, as a result, the Group again obtained control over OJSC "Nurenergo".

On 27 October 2017, the Commercial Court of the Chechen Republic declared OJSC "Nurenergo" bankrupt and initiated a six-month liquidation procedure until 27 April 2018.

As at 31 December 2017, the Group reviewed all the facts and conditions and concluded that control over the subsidiary was lost as at that date and derecognized the assets and liabilities of OJSC "Nurenergo".

The net effect from these transactions was a loss of RUB 68 mln. recognized in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017.

We have performed procedures of evaluation of completeness and accuracy of recognition of transactions related to loss of control and their disclosures in the consolidated financial statements.

Information about changes in the Group is provided in Notes 2 and 9 to the consolidated financial statements.

### **Recognition of results from revaluation of available-for-sale financial investments**

In our opinion, this matter was one of most significance in our audit of the consolidated financial statements because a significant expense from revaluation of available-for-sale financial investments in the amount of RUB 8,608 mln. is recognized in the consolidated financial statements. This expense was formed as result of significant decrease of quotations of the Group's financial investments in shares of PJSC "Inter RAO".

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

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

### **Recognition and measurement of revenue**

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

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

Revenue is disclosed in Notes 7, 8 to the consolidated financial statements.

### **Recognition, measurement and disclosure of provisions and contingent liabilities**

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

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

Provisions and contingent liabilities of the Group are disclosed in Notes 10, 27 and 31 to the consolidated financial statements.

### ***Other Information***

Management is responsible for the other information. The other information comprises the information included in the annual report of PJSC "ROSSETI" for 2017 and the quarterly report of the issuer PJSC "ROSSETI" for the 1st quarter of 2018, but does not include the consolidated financial statements and our auditor's report thereon. The annual report of PJSC "ROSSETI" for 2017 and the quarterly report of the issuer for the 1st quarter of 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

When we read the annual report of PJSC "ROSSETI" for 2017 or the quarterly report of the issuer PJSC "ROSSETI" for the 1st quarter of 2018, if we conclude that there are material misstatements therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our

conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

#### Management Board Chairperson

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

ORNZ in the Register of auditors and audit organizations – 21706004215

#### Engagement Leader on the audit resulting in this independent auditor's report

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

ORNZ in the Register of auditors and audit organizations – 21706004441



N.A. Dantser

N.N. Usanova

#### Audited entity:

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

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

Primary state registration number – 1087760000019.

#### Auditor:

**RSM RUS Ltd.**

Location: 4, Pudovkina St., 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.

The audit was conducted pursuant to Contract No. 171a070 dated 28.07.2017, concluded based on the results of competitive selection (Minutes of 17.04.2015, procurement №0473000000515000001). The auditor was approved by the Annual General Meeting of Shareholders on 30 June 2017.

**ROSSETI Group**  
*Consolidated Statement of Profit or Loss and Other Comprehensive Income*  
*for the year ended 31 December 2017*  
*(in millions of Russian rubles, unless otherwise stated)*

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	8	948,344	901,034
Operating expenses	10	(779,288)	(788,324)
Other income, net	9	22,261	30,747
<b>Results from operating activities</b>		<b>191,317</b>	<b>143,457</b>
Finance income	12	16,319	13,915
Finance costs	12	(30,034)	(37,187)
<b>Net finance costs</b>		<b>(13,715)</b>	<b>(23,272)</b>
Share of profit/(loss) of associates and joint ventures (net of income tax)		2	(343)
<b>Profit before income tax</b>		<b>177,604</b>	<b>119,842</b>
Income tax expense	13	(40,482)	(21,501)
<b>Profit for the year</b>		<b>137,122</b>	<b>98,341</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in fair value of available-for-sale financial assets	16	(8,650)	53,153
Foreign currency translation difference		(51)	(204)
Income tax related to items that may be reclassified subsequently to profit or loss	17	1,728	(10,628)
<b>Total items that may be reclassified subsequently to profit or loss</b>		<b>(6,973)</b>	<b>42,321</b>
<i>Items that will never be reclassified subsequently to profit or loss</i>			
Remeasurements of the defined benefit liability	25	(3,780)	1,936
Income tax related to items that will never be reclassified subsequently to profit or loss	17	610	(129)
<b>Total items that will not be reclassified subsequently to profit or loss</b>		<b>(3,170)</b>	<b>1,807</b>
<b>Other comprehensive (loss)/income, net of income tax</b>		<b>(10,143)</b>	<b>44,128</b>
<b>Total comprehensive income for the year</b>		<b>126,979</b>	<b>142,469</b>
<b>Profit attributable to:</b>			
Owners of the Company		102,315	74,615
Non-controlling interest		34,807	23,726
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		94,580	109,880
Non-controlling interest		32,399	32,589
<b>Earnings per share</b>			
Basic and diluted earnings per ordinary share (in RUB)	22	0.52	0.39

These consolidated financial statements were approved by management on 4 April 2018 and were signed on its behalf by:

Director General

P.A. Livinsky



Director for accounting  
and reporting – Chief Accountant

D.V. Nagovitsyn

*Consolidated Statement of Financial Position as at 31 December 2017  
(in millions of Russian rubles, unless otherwise stated)*

	<b>Notes</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	1,940,227	1,798,568
Intangible assets	15	16,758	16,804
Investments in associates and joint ventures		883	936
Trade and other receivables	19	74,483	51,262
Assets related to employee benefits plans	25	6,709	6,708
Financial investments	16	69,914	78,643
Deferred tax assets	17	7,178	7,069
<b>Total non-current assets</b>		<b>2,116,152</b>	<b>1,959,990</b>
<b>Current assets</b>			
Inventories	18	35,050	33,143
Financial investments	16	149	12,620
Income tax prepayments		4,528	6,339
Trade and other receivables	19	151,466	167,616
Cash and cash equivalents	20	102,054	86,970
<b>Total current assets</b>		<b>293,247</b>	<b>306,688</b>
<b>Total assets</b>		<b>2,409,399</b>	<b>2,266,678</b>

*Consolidated Statement of Financial Position as at 31 December 2017  
(in millions of Russian rubles, unless otherwise stated)*

	<b>Notes</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	21		
Share capital		200,903	198,071
Share premium		213,098	212,978
Treasury shares		(2,702)	(2,702)
Reserve for issue of shares		–	1,678
Other reserves		25,430	33,165
Retained earnings		621,077	521,300
<b>Total equity attributable to owners of the Company</b>		<b>1,057,806</b>	<b>964,490</b>
Non-controlling interest		365,755	340,149
<b>Total equity</b>		<b>1,423,561</b>	<b>1,304,639</b>
<b>Non-current liabilities</b>			
Loans and borrowings	23	506,990	472,057
Trade and other payables	26	39,840	23,698
Employee benefits	25	32,717	28,425
Deferred tax liabilities	17	76,202	66,835
<b>Total non-current liabilities</b>		<b>655,749</b>	<b>591,015</b>
<b>Current liabilities</b>			
Loans and borrowings	23	51,244	86,829
Trade and other payables	26	261,926	261,754
Provisions	27	10,561	14,305
Current income tax liabilities		6,358	8,136
<b>Total current liabilities</b>		<b>330,089</b>	<b>371,024</b>
<b>Total liabilities</b>		<b>985,838</b>	<b>962,039</b>
<b>Total equity and liabilities</b>		<b>2,409,399</b>	<b>2,266,678</b>

**ROSSETI Group**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2017*  
*(in millions of Russian rubles, unless otherwise stated)*

	<b>Notes</b>	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
<b>OPERATING ACTIVITIES</b>			
Profit for the year		<b>137,122</b>	<b>98,341</b>
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment and amortization of intangible assets	10	109,287	113,766
Impairment of property, plant and equipment	14	1,912	38,503
Finance costs	12	30,034	37,187
Finance income	12	(16,319)	(13,915)
Loss on disposal of property, plant and equipment		3,746	751
Share of (profit)/loss of associates and joint ventures, net of income tax		(2)	343
Impairment of accounts receivable	10	18,269	19,562
Loss/(gain) on derecognition of subsidiaries	9	80	(12,318)
Bad debt write-off		509	387
Accounts payable write-off		(666)	(1,369)
Non-cash receipt of property, plant and equipment		(3,906)	(5,650)
Non-cash settlements of technological connection agreements		(5,137)	(1,973)
Other non-cash transactions		(1,350)	(1,144)
Income tax expense		40,482	21,501
<b>Operating profit before changes in working capital</b>		<b>314,061</b>	<b>293,972</b>
Change in trade and other receivables		(24,064)	(65,734)
Change in inventories		(754)	919
Change in trade and other payables		3,298	23,842
Change in employee benefit liabilities		(1,608)	(1,611)
Change in provisions		(3,744)	2,884
Other		(2)	(91)
<b>Cash flows from operating activities before income tax and interest paid</b>		<b>287,187</b>	<b>254,181</b>
Income tax paid		(29,637)	(20,247)
Interest paid		(45,164)	(58,370)
<b>Net cash flows from operating activities</b>		<b>212,386</b>	<b>175,564</b>

**ROSSETI Group**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2017*  
*(in millions of Russian rubles, unless otherwise stated)*

	<u>Notes</u>	<u>Year ended 31 December 2017</u>	<u>Year ended 31 December 2016</u>
<b>INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment and intangible assets		(215,701)	(196,178)
Proceeds from the sale of property, plant and equipment and intangible assets		1,941	5,692
Acquisition of investments and placement of bank deposits		(26,660)	(34,636)
Proceeds from disposal of investments and withdrawal of bank deposits		39,865	59,239
Dividends received		2,500	348
Interest received		9,215	11,603
<b>Net cash flows used in investing activities</b>		<b>(188,840)</b>	<b>(153,932)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from loans and borrowings		537,413	302,878
Repayment of loans and borrowings		(537,483)	(327,288)
Proceeds from share premium		1,525	3,122
Dividends paid		(9,642)	(10,275)
Repayment of finance lease liabilities		(275)	(189)
<b>Net cash flows used in financing activities</b>		<b>(8,462)</b>	<b>(31,752)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>15,084</b>	<b>(10,120)</b>
<b>Cash and cash equivalents at the beginning of year</b>		<b>86,970</b>	<b>97,090</b>
<b>Cash and cash equivalents at the end of year</b>	20	<b>102,054</b>	<b>86,970</b>

**Attributable to equity holders of the Company**

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

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

**Attributable to equity holders of the Company**

	Share capital	Share premium	Treasury shares	Reserve for issue of shares	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
<b>Balance at 1 January 2017</b>	<b>198,071</b>	<b>212,978</b>	<b>(2,702)</b>	<b>1,678</b>	<b>33,165</b>	<b>521,300</b>	<b>964,490</b>	<b>340,149</b>	<b>1,304,639</b>
Profit for the year	–	–	–	–	–	102,315	102,315	34,807	137,122
Other comprehensive income	–	–	–	–	(9,518)	–	(9,518)	(2,963)	(12,481)
Related income tax	–	–	–	–	1,783	–	1,783	555	2,338
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(7,735)</b>	<b>102,315</b>	<b>94,580</b>	<b>32,399</b>	<b>126,979</b>
<b>Transactions with owners of the Company</b>									
<b>Contributions and distributions</b>									
Issue of shares (Note 21)	2,832	120	–	(1,678)	–	–	1,274	–	1,274
Dividends	–	–	–	–	–	(1,895)	(1,895)	(7,868)	(9,763)
<b>Total contributions and distributions</b>	<b>2,832</b>	<b>120</b>	<b>–</b>	<b>(1,678)</b>	<b>–</b>	<b>(1,895)</b>	<b>(621)</b>	<b>(7,868)</b>	<b>(8,489)</b>
<b>Changes in ownership interests in subsidiaries</b>									
Shares issued by subsidiaries (Note 21)	–	–	–	–	–	(643)	(643)	1,075	432
<b>Total transactions with owners of the Company</b>	<b>2,832</b>	<b>120</b>	<b>–</b>	<b>(1,678)</b>	<b>–</b>	<b>(2,538)</b>	<b>(1,264)</b>	<b>(6,793)</b>	<b>(8,057)</b>
<b>Balance at 31 December 2017</b>	<b>200,903</b>	<b>213,098</b>	<b>(2,702)</b>	<b>–</b>	<b>25,430</b>	<b>621,077</b>	<b>1,057,806</b>	<b>365,755</b>	<b>1,423,561</b>

## **1 Background**

### **(a) The Group and its operations**

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

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

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

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

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

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

### **(b) Russian business environment**

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

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. The future economic trend of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measure undertaken by the Government, together with tax, legal, regulatory and political developments.

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

**(c) Relations with state**

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

As at 31 December 2017, the Russian Government owned 88.04% in the share capital of the Company, including 88.89% of the voting ordinary shares and 7.01% of the preference shares. As at 31 December 2016, the Russian Government owned 87.90% in the share capital of the Company, including 88.75% of the voting ordinary shares and 7.01% of the preference shares.

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

## **2 Basis of preparation of consolidated financial statements**

**(a) Statement of compliance**

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

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

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

**(b) Basis of measurement**

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

**(c) Functional and presentation currency**

The national currency of the Russian Federation is the Russian ruble (RUB), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

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

The preparation of consolidated financial statements in conformity with IFRS requires management to make a number of professional judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

**Impairment of fixed assets.** At the end of each reporting period, the Group assesses whether there are any indication of impairment. Such indication includes changes in business plans, tariffs and other factors that may lead to unfavourable conditions for the Group's activities. When value in use calculations are undertaken, management estimates the expected future cash flow from the asset or cash generating units and chooses appropriate discount rate in order to calculate the present value of those cash flows.

**Impairment of accounts receivable.** Bad debt provision is based on management assumptions of debt recovery made for each debtor individually. Objective indicators of impairment are as follows: default or debtor failure to meet contractual obligations, debt restructuring to the Group under such terms that would have never been taken in regular conditions, signs of possible bankruptcy, unfavourable change in debtors paying capacity. When cash inflow is not expected in regard with account receivable, such account receivable shall be written off against provision made before.

Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

**Pension obligations.** The costs of defined benefit pension plans and related current service costs are determined using actuarial valuations. The actuarial valuations involve making demographic assumptions as well as financial assumptions. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

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

**OJSC "Nurenergo".** On 29 June 2016 the Commercial Court of the Republic of Chechnya declared OJSC "Nurenergo", the subsidiary of the Group (100% ownership), bankrupt and appointed an external bankruptcy manager. In accordance with the Russian legislation on insolvency (bankruptcy), since the date a debtor is declared bankrupt, the power of all executive bodies of a debtor is terminated and transferred to a bankruptcy manager. Thus the Group lost the right to direct relevant activities of the subsidiary and, therefore, lost control over the entity. As a result on 30 June 2016 the Group derecognized the assets and liabilities of the OJSC "Nurenergo" and recognised the gain of RUB 12,669 million in item "Other income, net" of the consolidated statement of profit or loss and other comprehensive income.

On 27 of January 2017 the North-Caucasian District State Commercial Court (the Court of Cassation) overturned the Court Ruling and sent the case to the Court of First Instance for re-trial. The Group analysed all the facts and conditions and concluded that the control over the subsidiary was regained from 27 January 2017, the assets and liabilities of the OJSC "Nurenergo" were recognized in the consolidated interim condensed financial statements.

On 27 October 2017 the Commercial Court of the Republic of Chechnya declared OJSC "Nurenergo" bankrupt and appointed an external bankruptcy manager. As at 31 December 2017 the Group analysed all the facts and conditions and concluded that the control over the subsidiary was lost on that date and derecognized the assets and liabilities of the OJSC "Nurenergo". The net effect of those transactions amounted to the loss of RUB 68 million was recognized in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

**(e) Implementation of new and revised standards and interpretations**

In 2017, the Group applied all IFRS, amendments and interpretations which are effective as at 1 January 2017 and relevant to its operations. None of them had material impact on the Group's consolidated financial statements.

The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018, and which the Group has not early adopted:

**IFRS 9 Financial Instruments.** In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. This standard will not have any material effect on the consolidated financial statements.

**IFRS 15 Revenue from Contracts with Customers.** The standard was issued in May 2014. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Either a full retrospective application or modified retrospective applications is required for annual periods beginning on or after 1 January 2018. Early application is permitted. This standard will not have any material effect on the consolidated financial statements.

**IFRS 16 Leases.** The standard was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). The Group intends to apply both exemptions. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The Group will be required to recognize separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is considering the implication of this standard for the Group's consolidated financial statements

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Transfers of Investment Property (Amendments to IAS 40).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- IFRIC 23 Uncertainty over Income Tax Treatments.

**(f) Change in presentation**

***Reclassification of comparative information***

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

**3 Significant accounting policies**

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

**(a) Basis of consolidation**

**(i) *Subsidiaries***

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

**(ii) *Business combinations***

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which the Group obtains control of the acquiree.

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

**(iii) Accounting for acquisitions of non-controlling interests**

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

**(iv) Acquisitions from entities under common control**

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for by the method the predecessor. The assets and liabilities of a business acquired in a common control transaction are recognized at the carrying amounts recognized previously in the consolidated financial statements of the acquired entities. Any cash or other contribution paid for the acquisition is recognized directly in equity.

**(v) Investments in associates (equity accounted investees)**

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

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

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

**(vi) Transactions eliminated on consolidation**

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

**(b) Foreign currency**

*Foreign currency transactions*

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to roubles at the exchange rate at that date. Foreign currency transactions accounted for at the exchange rates prevailing at the date of the transactions. Foreign currency profit or loss arising in retranslation are recognised in profit or loss.

**(c) Financial instruments**

**(i) Non-derivative financial instruments**

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

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

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

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

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

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

*Loans and receivables*

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

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and highly liquid investments with maturity of three months or less from date of origination and are subject to insignificant risk of changes in value.

*Financial assets held-to-maturity*

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

*Available-for-sale financial assets*

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

Available-for-sale financial assets comprise equity securities.

**(iii) Non-derivative financial liabilities**

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

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

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

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

**(d) Share capital**

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

**(e) Property, plant and equipment**

**(i) Recognition and measurement**

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

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

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

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

**(ii) Subsequent costs**

The cost of replacing part (major component) of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the statement of profit or loss and other comprehensive income as incurred.

**(iii) Depreciation**

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

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

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

Estimated useful lives and residual values of property, plant and equipment are reviewed at each reporting date and adjusted if appropriate.

**(f) Intangible assets**

**(i) Goodwill**

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

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

*Subsequent measurement*

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

**(ii) Other intangible assets**

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

**(iii) Subsequent expenditure**

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

**(iv) Amortization**

Amortization expense on intangible assets, other than goodwill is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives of intangible assets for the current and comparative periods are as follows:

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

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

**(g) Leased assets**

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

Other leases are operating leases and the leased assets are not recognized in the consolidated statement of the Group's financial position.

**(h) Inventories**

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

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

**(i) Advances given**

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

**(j) Value-added tax**

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

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

**(k) Impairment**

**(i) Financial assets**

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

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

An impairment loss with respect to a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss for the period and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. In the event of any subsequent event that leads to a decrease in the value of the impairment loss, the recovered amount of previously allocated to impairment, loss is recognized in profit or loss for the period.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized in profit or loss for the period.

Changes in impairment provisions attributable to the application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss for the period, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss for the period. However, any

subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

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

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit (CGU) is presented as the greater of its two values: value in use of the asset (this unit) and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of CGU. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units which it related to.

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

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

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

**(I) *Employee benefits***

**(i) *Defined contribution plans***

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

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

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

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

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

**(iii) Other non-current employee benefits**

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

**(iv) Short-term benefits**

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

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably and it is highly probable that there will be an outflow of economic benefits.

**(m) Provisions**

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

**(n) Revenue**

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

**(i) Electricity distribution and sales of electricity**

Revenue from electricity transmission is recognized based on acts of services rendered. The act is prepared for each counterparty in accordance with the concluded contract on the provision of services based on the meter readings and the "boiler" tariffs. The tariffs for the distribution of electricity (in respect to all subjects of the Russian Federation) and sale of electricity on the regulated market (in respect of subjects of the Russian Federation, not united in the price zones of the wholesale electricity market) are approved by the executive authorities of subjects of the Russian Federation (hereinafter - regional regulatory authority) in

the sphere of the state energy tariff regulation within the range of cap and (or) floor tariffs approved by the Federal Antimonopoly Service of the Russian Federation.

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

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

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

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

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

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

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

**(iii) *Other revenue***

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

**(o) *Government subsidies***

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

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

**(p) *Other expenses***

**(i) *Lease payments***

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. The amount of lease incentives received reduces the total lease expenses over the term of the lease.

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

*Determining whether an arrangement contains a lease*

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

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

**(ii) Social expenditure**

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

**(q) Finance income and costs**

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

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

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

**(r) Income tax expense**

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income tax payable with respect to previous years.

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

Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination, and that affects neither accounting nor taxable profit or loss;

- Temporary differences relating to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- Taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

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

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

**(s) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Profit attributable to ordinary shareholders is calculated by adjusting profit attributable to owners of the Company by profit attributable to holders of preference shares.

**(t) Segment reporting**

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

An operating segment is a component of the Group that engages in business activities and from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating results of operating segments for which discrete financial information is available are reviewed regularly by the Management Board so that it can make decisions about resources to be allocated to the segment and assess its performance.

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

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

Inter-segment pricing is determined on general commercial terms.

## **4 Measurement of fair values**

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

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

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

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

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

Further information about the assumptions made in measuring fair values is included in Note 28.

## 5 Significant subsidiaries

		<b>31 December 2017</b>	<b>31 December 2016</b>
	<b>Country of incorporation</b>	<b>Ownership/voting, %</b>	<b>Ownership/voting, %</b>
PJSC FGC UES	Russian Federation	80.14	80.13
PJSC MOESK	Russian Federation	50.90	50.90
JSC Tyumenenergo	Russian Federation	100.00	100.00
PJSC Lenenergo	Russian Federation	68.10/69.17	68.10/69.17
PJSC IDGC of Centre	Russian Federation	50.23	50.23
JSC IDGC of Urals	Russian Federation	51.52	51.52
PJSC IDGC of Centre and Volga region	Russian Federation	50.40	50.40
PJSC Kubanenergo	Russian Federation	92.78	92.24
PJSC IDGC of Siberia	Russian Federation	57.84/55.59	57.84/55.59
PJSC IDGC of Volga	Russian Federation	67.97	68.89
PJSC IDGC of North-West	Russian Federation	55.38	55.38
PJSC IDGC of North Caucasus	Russian Federation	97.30	93.20
JSC Chechenenergo	Russian Federation	77.64	72.66
PJSC IDGC of South	Russian Federation	65.12	53.01
PJSC TDC	Russian Federation	85.77/94.58	85.77/94.58
JSC Yantarenergo	Russian Federation	100.00	100.00
JSC Karachaevo-Cherkesskenergo	Russian Federation	100.00	100.00
JSC Kalmenergosbyt	Russian Federation	100.00	100.00
JSC Kabbalkenergo	Russian Federation	65.27	65.27
JSC Tyvaenergosbyt	Russian Federation	100.00	100.00
JSC Sevkavkazenergo	Russian Federation	55.94	55.94
PJSC Dagestan Power Sales Company	Russian Federation	51.00	51.00

## 6 Non-controlling interests

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

As at 31 December 2017 and for the year ended 31 December 2017:

	FGC	MOESK	Lenenergo	IDGC of Centre	IDGC of Urals	IDGC of Centre and Volga region	IDGC of Siberia	Other individually immaterial subsidiaries	Total
<b>Non-controlling percentage</b>	<b>19.86</b>	<b>49.10</b>	<b>31.90</b>	<b>49.77</b>	<b>48.48</b>	<b>49.60</b>	<b>42.16</b>		
Non-current assets	1,077,230	314,098	180,324	89,868	63,492	71,479	44,221		
Current assets	107,380	27,037	14,298	15,208	12,188	18,052	18,290		
Non-current liabilities	(292,728)	(110,559)	(30,820)	(42,036)	(18,547)	(32,641)	(27,836)		
Current liabilities	(89,681)	(55,063)	(42,728)	(18,893)	(12,066)	(10,074)	(17,609)		
<b>Net assets</b>	<b>802,201</b>	<b>175,513</b>	<b>121,074</b>	<b>44,147</b>	<b>45,067</b>	<b>46,816</b>	<b>17,066</b>		
<b>Carrying amount of non-controlling interest</b>	<b>159,024</b>	<b>86,773</b>	<b>40,208</b>	<b>22,110</b>	<b>22,430</b>	<b>23,564</b>	<b>7,233</b>	<b>4,413</b>	<b>365,755</b>
Revenue	242,980	150,494	77,653	91,116	81,159	91,002	53,598		
Profit	98,553	3,073	18,687	2,983	4,112	11,438	2,410		
Other comprehensive income/(loss)	(8,191)	(583)	2	(239)	(68)	(361)	16		
<b>Total comprehensive income</b>	<b>90,362</b>	<b>2,490</b>	<b>18,689</b>	<b>2,744</b>	<b>4,044</b>	<b>11,077</b>	<b>2,426</b>		
Profit/(loss) allocated to non-controlling interest	19,576	1,509	5,952	1,484	1,994	5,673	1,016	(2,397)	34,807
Other comprehensive income/(loss) allocated to non-controlling interest	(1,627)	(286)	–	(119)	(44)	(179)	12	(165)	(2,408)
Cash flows from operating activities	120,767	26,337	11,818	14,268	7,671	13,470	2,562		
Cash flows used in investing activities	(76,536)	(26,827)	(19,339)	(11,864)	(6,200)	(9,675)	(7,259)		
Cash flows from/(used in) financing activities:	(46,100)	427	575	(3,608)	(1,278)	(1,689)	5,639		
- including dividends to non-controlling shareholders	(3,712)	(707)	(948)	(915)	(355)	(646)	–		
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>(1,869)</b>	<b>(63)</b>	<b>(6,946)</b>	<b>(1,204)</b>	<b>193</b>	<b>2,106</b>	<b>942</b>		

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

	FGC	MOESK	Lenenergo	IDGC of Centre	IDGC of Urals	IDGC of Centre and Volga region	IDGC of Siberia	Other individually immaterial subsidiaries	Total
<b>Non-controlling percentage</b>	<b>19.87</b>	<b>49.10</b>	<b>31.90</b>	<b>49.77</b>	<b>48.48</b>	<b>49.60</b>	<b>42.16</b>		
Non-current assets	974,745	312,445	159,394	87,016	62,352	62,522	38,688		
Current assets	127,456	28,406	21,245	20,027	12,688	16,798	20,191		
Non-current liabilities	(269,648)	(94,255)	(32,551)	(46,958)	(19,121)	(25,927)	(18,967)		
Current liabilities	(100,343)	(72,053)	(43,812)	(16,847)	(14,209)	(16,331)	(25,293)		
<b>Net assets</b>	<b>732,210</b>	<b>174,543</b>	<b>104,276</b>	<b>43,238</b>	<b>41,710</b>	<b>37,062</b>	<b>14,619</b>		
<b>Carrying amount of non-controlling interest</b>	<b>145,934</b>	<b>86,297</b>	<b>35,203</b>	<b>21,639</b>	<b>20,782</b>	<b>18,727</b>	<b>6,194</b>	<b>5,373</b>	<b>340,149</b>
Revenue	254,857	143,354	65,502	86,295	74,726	78,664	48,407		
Profit	69,376	9,161	12,221	4,720	1,359	3,632	336		
Other comprehensive income/(loss)	43,932	312	28	56	(153)	32	140		
<b>Total comprehensive income</b>	<b>113,308</b>	<b>9,473</b>	<b>12,249</b>	<b>4,776</b>	<b>1,206</b>	<b>3,664</b>	<b>476</b>		
Profit/(loss) allocated to non-controlling interest	13,714	4,497	3,692	2,349	659	1,802	3	(2,990)	23,726
Other comprehensive income/(loss) allocated to non-controlling interest	8,669	125	7	26	(60)	13	61	22	8,863
Cash flows from operating activities	111,476	27,780	8,235	14,702	8,923	8,148	(507)		
Cash flows used in investing activities	(37,958)	(30,515)	(16,746)	(12,801)	(6,734)	(7,405)	(4,174)		
Cash flows from/(used in) financing activities:	(57,290)	3,119	(7,268)	543	(5,209)	(1,263)	4,322		
- including dividends to non-controlling shareholders	(3,147)	(3,102)	(514)	(218)	(622)	(458)	(4)		
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>16,228</b>	<b>384</b>	<b>(15,779)</b>	<b>2,444</b>	<b>(3,020)</b>	<b>(520)</b>	<b>(359)</b>		

## **7 Information about segments**

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

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

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

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

Information regarding reportable segments is included below.

**(a) Information about reportable segments**

As at 31 December 2017 and for the year ended 31 December 2017:

	IDGC of Siberia and Tomskaya DC	Tyumen- energo	IDGC of Urals	IDGC of Volga	IDGC of South	Kubanener- go	IDGC of North Caucasus	IDGC of Centre and Volga	IDGC of North-West	Yantar- Lenenergo	Yantar- energo	IDGC of Centre	MOESK	FGC	Other	Total
Revenue from external customers	58,104	57,880	64,147	59,106	34,686	42,249	11,362	90,769	41,154	74,269	3,003	90,961	147,297	76,641	102,038	953,666
Inter-segment revenue	143	13	6,943	33	459	4	4,773	75	3,154	413	4,702	99	75	139,358	60,315	220,559
<b>Segment revenue</b>	<b>58,247</b>	<b>57,893</b>	<b>71,090</b>	<b>59,139</b>	<b>35,145</b>	<b>42,253</b>	<b>16,135</b>	<b>90,844</b>	<b>44,308</b>	<b>74,682</b>	<b>7,705</b>	<b>91,060</b>	<b>147,372</b>	<b>215,999</b>	<b>162,353</b>	<b>1,174,225</b>
Including																
<i>Electricity transmission</i>	57,169	56,665	69,873	58,395	33,439	41,486	13,559	83,680	42,710	60,600	4,930	87,623	138,350	192,560	10,781	951,820
<i>Connection services</i>	520	1,006	874	519	415	648	99	733	810	13,377	2,618	1,591	7,184	21,412	2,733	54,539
<i>Resale of electricity</i>	–	–	–	–	860	–	1,668	6,011	–	–	–	548	–	–	66,772	75,859
<i>Other revenue</i>	558	222	343	225	431	119	809	420	788	705	157	1,298	1,838	2,027	82,067	92,007
Finance income	129	338	357	190	61	48	104	226	45	548	111	388	117	10,526	645	13,833
Finance costs	(1,997)	(234)	(859)	(495)	(3,070)	(1,907)	(986)	(2,169)	(1,408)	(1,383)	(422)	(4,046)	(5,389)	(3,941)	(1,271)	(29,577)
Depreciation	5,077	8,163	4,923	5,276	2,582	3,783	2,198	6,976	4,429	10,603	468	10,699	24,274	81,957	5,819	177,227
<b>EBITDA</b>	<b>8,597</b>	<b>9,388</b>	<b>11,495</b>	<b>12,025</b>	<b>6,287</b>	<b>6,858</b>	<b>393</b>	<b>23,410</b>	<b>3,004</b>	<b>28,703</b>	<b>3,592</b>	<b>19,323</b>	<b>34,031</b>	<b>146,492</b>	<b>(2,869)</b>	<b>310,729</b>
<b>Segment assets</b>	<b>78,479</b>	<b>147,816</b>	<b>66,359</b>	<b>63,291</b>	<b>44,461</b>	<b>71,857</b>	<b>34,548</b>	<b>101,518</b>	<b>53,951</b>	<b>205,678</b>	<b>24,109</b>	<b>119,666</b>	<b>342,208</b>	<b>1,425,040</b>	<b>148,080</b>	<b>2,927,061</b>
<i>Including property, plant and equipment and construction in progress</i>	55,096	141,268	51,736	49,735	28,697	59,659	22,579	75,889	42,342	168,639	18,863	99,672	304,656	1,158,091	73,680	2,350,602
Capital expenditure	8,829	10,596	6,571	4,101	2,768	7,562	1,320	9,580	6,578	28,710	9,949	11,866	31,479	135,595	7,372	282,876
<b>Segment liabilities</b>	<b>45,461</b>	<b>22,313</b>	<b>25,354</b>	<b>14,936</b>	<b>38,245</b>	<b>36,448</b>	<b>18,800</b>	<b>39,377</b>	<b>28,848</b>	<b>73,941</b>	<b>9,680</b>	<b>61,769</b>	<b>150,282</b>	<b>387,469</b>	<b>141,579</b>	<b>1,094,502</b>

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

	IDGC of Siberia and Tomskaya DC	Tyumen- energo	IDGC of Urals	IDGC of Volga	IDGC of South	Kubanener- go	IDGC of North Caucasus	IDGC of Centre and Volga	IDGC of North-West Lenenergo	Yantar- energo	IDGC of Centre	MOESK	FGC	Other	Total	
Revenue from external customers	53,446	57,381	58,825	53,210	30,925	41,723	11,177	78,451	39,139	61,126	1,430	86,087	139,849	85,332	109,922	908,023
Inter-segment revenue	245	9	6,628	2	489	4	4,524	30	3,294	134	3,892	23	11	133,034	37,436	189,755
<b>Segment revenue</b>	<b>53,691</b>	<b>57,390</b>	<b>65,453</b>	<b>53,212</b>	<b>31,414</b>	<b>41,727</b>	<b>15,701</b>	<b>78,481</b>	<b>42,433</b>	<b>61,260</b>	<b>5,322</b>	<b>86,110</b>	<b>139,860</b>	<b>218,366</b>	<b>147,358</b>	<b>1,097,778</b>
Including																
<i>Electricity transmission</i>	52,504	56,773	63,703	52,688	30,768	39,262	13,258	77,387	40,583	54,437	4,515	83,590	128,642	171,133	14,936	884,179
<i>Connection services</i>	721	409	1,336	323	470	2,381	128	860	1,123	6,485	669	1,411	10,012	45,479	2,954	74,761
<i>Resale of electricity</i>	-	-	-	-	-	-	1,490	-	-	-	-	52	-	-	74,749	76,291
<i>Other revenue</i>	466	208	414	201	176	84	825	234	727	338	138	1,057	1,206	1,754	54,719	62,547
Finance income	175	771	472	136	99	90	137	159	65	1,846	39	264	329	8,068	664	13,314
Finance costs	(1,849)	(43)	(969)	(1,046)	(2,769)	(1,889)	(873)	(2,332)	(1,622)	(1,730)	(491)	(4,508)	(5,708)	(6,231)	(1,911)	(33,971)
Depreciation	5,043	7,885	4,670	5,432	2,601	3,624	2,169	6,465	4,252	9,868	439	9,848	24,454	81,492	5,616	173,858
<b>EBITDA</b>	<b>5,559</b>	<b>11,561</b>	<b>10,447</b>	<b>9,820</b>	<b>4,428</b>	<b>9,019</b>	<b>1,718</b>	<b>13,344</b>	<b>6,619</b>	<b>21,812</b>	<b>1,455</b>	<b>16,865</b>	<b>37,380</b>	<b>212,042</b>	<b>16,377</b>	<b>378,446</b>
<b>Segment assets</b>	<b>75,828</b>	<b>143,406</b>	<b>64,960</b>	<b>63,070</b>	<b>44,818</b>	<b>67,288</b>	<b>35,640</b>	<b>91,983</b>	<b>58,292</b>	<b>188,652</b>	<b>14,101</b>	<b>122,663</b>	<b>341,610</b>	<b>1,366,174</b>	<b>170,029</b>	<b>2,848,514</b>
<i>Including property, plant and equipment and construction in progress</i>	52,093	134,916	50,641	51,013	28,564	55,911	23,857	73,529	40,731	147,487	9,459	98,425	298,295	1,107,632	76,524	2,249,077
Capital expenditure	7,412	7,527	5,902	3,173	2,550	5,448	1,106	7,928	4,372	24,990	2,355	13,331	32,287	104,735	13,166	236,282
<b>Segment liabilities</b>	<b>43,828</b>	<b>19,504</b>	<b>27,799</b>	<b>18,275</b>	<b>40,893</b>	<b>31,890</b>	<b>19,959</b>	<b>39,522</b>	<b>30,636</b>	<b>67,586</b>	<b>8,344</b>	<b>64,931</b>	<b>150,845</b>	<b>379,173</b>	<b>155,136</b>	<b>1,098,321</b>

**(b) Major customer**

In 2017, the Inter RAO Group (consisting primarily of electricity sales companies within the Inter RAO Group) was a major customer of the Group. Total revenues from companies of Inter RAO Group amounted to RUB 216,190 million for the year ended 31 December 2017 (RUB 196,836 million for the year ended 31 December 2016).

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

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

The reconciliation of segment revenue is presented below:

	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
<b>Segment revenues</b>	<b>1,174,225</b>	<b>1,097,778</b>
Intersegment revenue elimination	(220,559)	(189,755)
Reclassification from other income	1,748	161
Other adjustments	(7,080)	(7,154)
Unallocated revenues	10	4
<b>Revenues per consolidated statement of profit or loss and other comprehensive income</b>	<b>948,344</b>	<b>901,034</b>

Reconciliation of reportable segment EBITDA is presented below:

	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
<b>EBITDA of reportable segments</b>	<b>310,729</b>	<b>378,446</b>
Adjustment for net book value of property, plant and equipment	252	(116)
Adjustment for inventories valuation	(11)	(44)
Discounting of financial instruments	1,139	(2,293)
Adjustment for allowance for doubtful debtors	399	(3,382)
Adjustment for finance lease	439	296
Impairment/reversal of impairment of property, plant and equipment	(3,928)	(37,627)
Accrued salaries and wages to employees	108	(66)
Recognition of retirement and other long-term employee benefit obligation	(509)	(888)
Adjustment on assets related to employee benefits	2	91
Provisions	1,614	(2,210)
Adjustment for deferred expenses	(369)	(540)
Adjustment of available-for-sale financial assets	(105)	134
Re-measurement of available-for-sale investments (transfer of re-measurement to equity)	7,508	(53,153)
Adjustment of impairment of intercompany promissory notes	(1,818)	(13,233)
Other adjustments	(6,547)	(2,699)
Unallocated items	4 818	2,516
	<b>313,721</b>	<b>265 232</b>
Depreciation and amortization	(109,287)	(113,766)
Interest expenses on financial liabilities	(26,690)	(31,494)
Interest expenses on finance lease liabilities	(140)	(130)
Income tax expense	(40,482)	(21,501)
<b>Profit for the year per consolidated statement of profit or loss and other comprehensive income</b>	<b>137,122</b>	<b>98,341</b>

The reconciliation of reportable segment total assets is presented below:

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Total segment assets</b>	<b>2,927,061</b>	<b>2,848,514</b>
Intersegment balances	(142,595)	(169,498)
Intersegment investments	(51,496)	(50,677)
Adjustment for net book value of property, plant and equipment	(93,673)	(122,702)
Impairment of property, plant and equipment	(318,432)	(329,570)
Recognition of assets related to employee benefits	6,709	6,708
Adjustment to cost of investments in associates	153	201
Adjustment for allowance for doubtful debtors	33,299	14,674
Adjustment for inventories valuation	(103)	(92)
Deferred tax assets adjustment	(13,631)	(11,066)
Advances given	(2,095)	(2,325)
Other adjustments	(17,405)	7,326
Unallocated items	81,607	75,185
<b>Total assets per consolidated statement of financial position</b>	<b>2,409,399</b>	<b>2,266,678</b>

The reconciliation of reportable segment total liabilities is presented below:

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Total segment liabilities</b>	<b>1,094,502</b>	<b>1,098,321</b>
Intersegment balances	(140,279)	(168,837)
Deferred tax adjustment	(28,208)	(28,234)
Accrual of retirement and other long-term employee benefit obligation	32,715	28,425
Finance lease liabilities	963	997
Accrued salaries and wages to employees	122	231
Other provisions and accruals	1,355	3,519
Other adjustments	(8,465)	(7,007)
Unallocated items	33,133	34,624
<b>Total liabilities per consolidated statement of financial position</b>	<b>985,838</b>	<b>962,039</b>

**8 Revenue**

	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
Electricity transmission	784,216	721,881
Sales of electricity and capacity	75,740	78,261
Technological connection services	52,379	68,118
Other revenue	36,009	32,774
	<b>948,344</b>	<b>901,034</b>

Other revenues are mainly comprised of revenue from construction services, rental income, repair and maintenance services.

**9 Other income, net**

	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
Income in the form of fines and penalties on commercial contracts	16,475	8,586
Income from identified non-contracted electricity consumption	2,834	2,140
Income from compensation of losses in connection with retirement / liquidation of electric grid assets	2,660	2,947
(Loss)/gain on deconsolidation of subsidiaries	(80)	12,318
Net other income	372	4,756
	<b>22,261</b>	<b>30,747</b>

For the year ended 31 December 2017 the (loss)/gain from derecognition of the subsidiary includes the net value from the regain and loss of control over OJSC Nurenergo in the amount of RUB 68 million and the gain on deconsolidation of OJSC Nurenergo in the amount of RUB 12,669 million for the year ended 31 December 2016 (Note 2d).

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

**10 Operating expenses**

	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
Personnel costs (Note 11)	181,530	173,615
Depreciation and amortization (Notes 14, 15)	109,287	113,766
Impairment/(reversal of impairment) of property, plant and equipment (Note 14)	1,912	38,503
<i>Material expenses, including:</i>		
Electricity for compensation of losses	128,217	111,543
Electricity for sale	42,216	46,023
Purchased electricity and heat power for own needs	4,268	4,003
Other material costs	39,346	40,867
<i>Production work and services, including:</i>		
Electricity transmission services	142,870	130,997
Repair and maintenance services	13,447	11,764
Other works and industrial services	19,543	16,860
Taxes and levies other than income tax	24,832	20,755
Rent	6,266	7,514
Insurance	2,350	2,154
<i>Other third-party services, including:</i>		
Communication services	2,811	2,832
Security services	4,611	4,482
Consulting, legal and audit services	3,170	2,307
Software costs and servicing	2,434	3,023
Transportation services	2,635	2,578
Other services	8,794	7,973
Impairment of receivables	18,269	19,562
Provisions (Note 27)	5,067	9,575
Other expenses	15,413	17,628
	<b>779,288</b>	<b>788,324</b>

**11 Personnel costs**

	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
Wages and salaries	135,142	129,813
Social security contributions	38,452	37,054
Expenses related to defined benefit plan	1,677	1,456
Expenses/(gains) related to other long-term employee benefits	301	(74)
Other	5,958	5,366
	<b>181,530</b>	<b>173,615</b>

The amount of contributions to the defined contribution plan was RUB 27,826 million for the year ended 31 December 2017 (for the year ended 31 December 2016: RUB 26,532 million).

**12 Finance income and costs**

<i>Recognized in profit or loss</i>	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
<i>Finance income</i>		
Interest income on loans, bank deposits and promissory notes	7,975	12,566
Dividends	2,507	347
Unwind of discount of accounts receivable	4,577	294
Other finance income	1,260	708
	<b>16,319</b>	<b>13,915</b>
<i>Finance costs</i>		
Interest expenses on financial liabilities measured at amortized cost	(26,690)	(31,494)
Interest expenses on finance lease liabilities	(140)	(130)
Impairment loss on available-for-sale and held-to-maturity financial assets	(303)	(25)
Loss on disposal of financial assets	–	(95)
Interest expenses on defined benefit liabilities	(2,031)	(2,396)
Other finance costs	(870)	(3,047)
	<b>(30,034)</b>	<b>(37,187)</b>

## 13 Income tax

	Year ended 31 December 2017	Year ended 31 December 2016
<b>Current income tax</b>		
Accrual of current tax	(29,688)	(25,481)
Adjustment for previous periods tax	854	1,800
	<b>(28,834)</b>	<b>(23,681)</b>
<b>Deferred income tax</b>		
Accrual and reversal of temporary differences	(11,947)	1,614
Change in tax base of property, plant and equipment	299	566
	<b>(11,648)</b>	<b>2,180</b>
	<b>(40,482)</b>	<b>(21,501)</b>

In 2017 and 2016, some Group companies recalculated income tax for prior periods related to the deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment and accelerated tax depreciation of property, plant and equipment operated in an aggressive environment. As a result, adjusted tax declarations were submitted to the tax authorities and income tax overprovided in prior periods was recognized.

Income tax recognized in other comprehensive income

	Year ended 31 December 2017			Year ended 31 December 2016		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Available-for-sale financial assets	(8,650)	1,728	(6,922)	53,153	(10,628)	42,525
Foreign currency translation differences	(51)	–	(51)	(204)	–	(204)
Remeasurements of the defined benefit liability	(3,780)	610	(3,170)	1,936	(129)	1,807
	<b>(12,481)</b>	<b>2,338</b>	<b>(10,143)</b>	<b>54,885</b>	<b>(10,757)</b>	<b>44,128</b>

The income tax rate applicable to the Group's entities for the year ended 31 December 2017 is 20 % (for the year ended 31 December 2016: 20 %).

Profit before income tax for financial reporting purposes is reconciled to income tax expenses as follows:

	Year ended 31 December 2017	%	Year ended 31 December 2016	%
Profit/(loss) before income tax	<b>177,604</b>		<b>119,842</b>	
Income tax at the applicable tax rate	<b>(35,521)</b>	<b>(20)</b>	<b>(23,968)</b>	<b>(20)</b>
Effect of income taxed at lower rates	1,353	1	1,539	1
Tax effect on not taxable or non-deductible for tax purposes items	(6,705)	(4)	(2,680)	(2)
Change in tax base of property, plant and equipment	299	–	566	–
Adjustments for prior years	854	–	1,800	2
Change in unrecognized deferred tax assets	(762)	–	1,242	1
	<b>(40,482)</b>	<b>(23)</b>	<b>(21,501)</b>	<b>(18)</b>

## 14 Property, plant and equipment

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
<i>Cost/Deemed cost</i>						
<b>At 1 January 2016</b>	<b>237,648</b>	<b>1,138,556</b>	<b>885,119</b>	<b>266,680</b>	<b>352,607</b>	<b>2,880,610</b>
Reclassification between groups	68	40	(205)	97	–	–
Additions	954	5,054	2,259	6,036	205,837	220,140
Transfer	16,956	70,594	95,725	17,848	(201,123)	–
Disposals	(1,088)	(1,433)	(2,299)	(3,333)	(4,588)	(12,741)
<b>At 31 December 2016</b>	<b>254,538</b>	<b>1,212,811</b>	<b>980,599</b>	<b>287,328</b>	<b>352,733</b>	<b>3,088,009</b>
<b>At 1 January 2017</b>	<b>254,538</b>	<b>1,212,811</b>	<b>980,599</b>	<b>287,328</b>	<b>352,733</b>	<b>3,088,009</b>
Reclassification between groups	(5,211)	(1,594)	7,082	(277)	–	–
Additions	1,020	16,441	5,384	8,027	227,433	258,305
Transfer	15,357	55,600	82,937	18,520	(172,414)	–
Disposals	(241)	(1,302)	(1,999)	(2,153)	(6,577)	(12,272)
<b>At 31 December 2017</b>	<b>265,463</b>	<b>1,281,956</b>	<b>1,074,003</b>	<b>311,445</b>	<b>401,175</b>	<b>3,334,042</b>
<i>Depreciation and impairment</i>						
<b>At 1 January 2016</b>	<b>(66,302)</b>	<b>(471,976)</b>	<b>(389,196)</b>	<b>(153,640)</b>	<b>(65,452)</b>	<b>(1,146,566)</b>
Reclassification between groups	(710)	(1,999)	(6,312)	(556)	9,577	–
Depreciation charge	(8,649)	(39,760)	(37,944)	(22,549)	–	(108,902)
Disposals	264	681	1,149	2,354	82	4,530
Impairment	(163)	(12,753)	(14,137)	(1,752)	(9,698)	(38,503)
<b>At 31 December 2016</b>	<b>(75,560)</b>	<b>(525,807)</b>	<b>(446,440)</b>	<b>(176,143)</b>	<b>(65,491)</b>	<b>(1,289,441)</b>
<b>At 1 January 2017</b>	<b>(75,560)</b>	<b>(525,807)</b>	<b>(446,440)</b>	<b>(176,143)</b>	<b>(65,491)</b>	<b>(1,289,441)</b>
Reclassification between groups	2,623	(173)	(5,728)	(169)	3,447	–
Depreciation charge	(8,723)	(39,093)	(37,501)	(20,892)	–	(106,209)
Disposals	100	574	1,144	1,791	138	3,747
Impairment	(1,967)	178	(174)	(695)	746	(1,912)
<b>At 31 December 2017</b>	<b>(83,527)</b>	<b>(564,321)</b>	<b>(488,699)</b>	<b>(196,108)</b>	<b>(61,160)</b>	<b>(1,393,815)</b>
<i>Net book value</i>						
<b>At 1 January 2016</b>	<b>171,346</b>	<b>666,580</b>	<b>495,923</b>	<b>113,040</b>	<b>287,155</b>	<b>1,734,044</b>
<b>At 31 December 2016</b>	<b>178,978</b>	<b>687,004</b>	<b>534,159</b>	<b>111,185</b>	<b>287,242</b>	<b>1,798,568</b>
<b>At 31 December 2017</b>	<b>181,936</b>	<b>717,635</b>	<b>585,304</b>	<b>115,337</b>	<b>340,015</b>	<b>1,940,227</b>

As at 31 December 2017, construction in progress includes advance payments for purchase of property, plant and equipment of RUB 24,636 million (31 December 2016: RUB 26,904 million) and materials for the fixed assets construction of RUB 7,073 million (31 December 2016: RUB 6,021 million).

Capitalized borrowing costs for the year ended 31 December 2017 amounted to RUB 17,822 million (for the year ended 31 December 2016: RUB 24,660 million), with capitalization rates of 5.85 – 11.64% (for the year ended 31 December 2016: 6.16 – 16.00%).

The depreciation charge for the year ended 31 December 2017 of RUB 82 million (for the year ended 31 December 2016: RUB 49 million) has been capitalized to the cost of the capital construction objects.

As at 31 December 2017 and 31 December 2016 there are no fixed assets pledged as collateral for loans and borrowings.

***Leased property, plant and equipment***

The property, plant and equipment line includes leased fixed assets with the net book value of RUB 1,290 million as at 31 December 2017 (31 December 2016: RUB 1,318 million).

***Impairment of property, plant and equipment***

The Group performed an impairment test of the property, plant and equipment as at 31 December 2017 for the cash generating units (CGU) and recognized an impairment loss on property, plant and equipment in the amount of RUB 19,967 million (as at 31 December 2016: RUB 44,952 million), thus loss recognised as at 31 December 2017 and partially amortised was reversed in the amount of RUB 18,055 million (as at 31 December 2016: RUB 6,449 million).

Recoverable amount for all CGU's, as value in use, was calculated using the discounting rate, determined as the weighted average cost of capital (WACC) within the range of 9.08% - 10.25% (2016: 8.96% - 10.91%).

## 15 Intangible assets

	Software	Licenses and certificates	Other intangible assets	Total
<i>Initial cost</i>				
<b>At 1 January 2016</b>	<b>19,346</b>	<b>149</b>	<b>11,936</b>	<b>31,431</b>
Reclassification between groups	30	–	(30)	–
Additions	2,795	6	867	3,668
Disposals	(607)	(12)	(1,641)	(2,260)
<b>At 31 December 2016</b>	<b>21,564</b>	<b>143</b>	<b>11,132</b>	<b>32,839</b>
<b>At 1 January 2017</b>	<b>21,564</b>	<b>143</b>	<b>11,132</b>	<b>32,839</b>
Reclassification between groups	33	40	(73)	–
Additions	2,472	638	962	4,072
Disposals	(896)	(101)	(1,289)	(2,286)
<b>At 31 December 2017</b>	<b>23,173</b>	<b>720</b>	<b>10,732</b>	<b>34,625</b>
<i>Amortization</i>				
<b>At 1 January 2016</b>	<b>(10,588)</b>	<b>(92)</b>	<b>(2,219)</b>	<b>(12,899)</b>
Reclassification between groups	(6)	(1)	7	–
Amortization charge	(2,164)	(21)	(2,744)	(4,929)
Disposals	533	12	1,248	1,793
<b>At 31 December 2016</b>	<b>(12,225)</b>	<b>(102)</b>	<b>(3,708)</b>	<b>(16,035)</b>
<b>At 1 January 2017</b>	<b>(12,225)</b>	<b>(102)</b>	<b>(3,708)</b>	<b>(16,035)</b>
Reclassification between groups	12	(8)	(4)	–
Amortization charge	(2,433)	(71)	(660)	(3,164)
Disposals	799	41	492	1,332
<b>At 31 December 2017</b>	<b>(13,847)</b>	<b>(140)</b>	<b>(3,880)</b>	<b>(17,867)</b>
<i>Net book value</i>				
<b>At 1 January 2016</b>	<b>8,758</b>	<b>57</b>	<b>9,717</b>	<b>18,532</b>
<b>At 31 December 2016</b>	<b>9,339</b>	<b>41</b>	<b>7,424</b>	<b>16,804</b>
<b>At 31 December 2017</b>	<b>9,326</b>	<b>580</b>	<b>6,852</b>	<b>16,758</b>

Capitalized borrowing costs for the year ended 31 December 2017 amounted to RUB 34 million (for the year ended 31 December 2016: RUB 83 million), with capitalization rates of 8.38 – 9.98% (for the year ended 31 December 2016: 8.75 – 16.00%).

**16 Financial investments**

	<b>31 December 2017</b>	<b>31 December 2016</b>
<i>Non-current</i>		
Available-for-sale financial assets	67,024	75,315
Financial assets held to maturity	2,890	3,328
	<b>69,914</b>	<b>78,643</b>
<i>Current</i>		
Financial assets held to maturity	149	12,620
	<b>149</b>	<b>12,620</b>

Available-for-sale non-current financial assets are mainly represented by the shares in PJSC Inter RAO UES. Fair value of these shares is based on published market quotations and amounted to RUB 65,947 million and RUB 74,542 million as at 31 December 2017 and 31 December 2016 respectively. For the year ended 31 December 2017 the decrease in the fair value of these available-for-sale investments in the total amount of RUB 8,608 million was recognized in other comprehensive income (for the year ended 31 December 2016: an increase RUB 53,045 million).

Financial assets held to maturity are mainly represented by bank deposits with an original maturity of more than three months.

	<b>Interest rate</b>	<b>Rating</b>	<b>Rating agency</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
OJSC Bank Tavrishesky	0.51	–	–	2,664	2,533
Bank GPB (JSC)*	7.35	BB+	Standard & Poor's	35	12 133
PJSC Sberbank*	5.44-10.58	Ba2	Moody's	3	5
VTB Bank (PJSC)*				–	242
Other banks				96	167
				<b>2,798</b>	<b>15 080</b>

\* Government-related banks

As at 31 December 2017 bank deposits placed in OJSC Bank Tavrishesky (hereinafter – the Bank) are accounted in respect of the provision for impairment amounted to RUB 10,036 million (as at 31 December 2016 – RUB 10,236 million).

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

The fair value of deposits is determined on the basis of the Bank's readjustment agreement. In the period up to July 2022 there is a planned Bank's reorganisation in form of a merger to its Investor.

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

The Group's exposure to credit risk and impairment losses related to other investments and financial assets is disclosed in Note 28.

## 17 Deferred tax assets and liabilities

### (a) Recognized deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Property, plant and equipment	3,449	3,060	(88,632)	(72,533)	(85,183)	(69,473)
Intangible assets	516	436	(262)	(226)	254	210
Available-for-sale investments	3,478	3,554	(8,019)	(10,404)	(4,541)	(6,850)
Inventories	247	450	(98)	(97)	149	353
Trade and other receivables and prepayments	14,819	10,984	(930)	(1,041)	13,889	9,943
Finance lease liabilities	185	216	–	–	185	216
Loans and borrowings	–	70	(229)	(264)	(229)	(194)
Provisions	5,397	4,839	(2)	(41)	5,395	4,798
Employee benefits	3,415	2,908	(54)	(53)	3,361	2,855
Trade and other payables	2,158	2,699	(59)	(33)	2,099	2,666
Tax loss carry-forwards	4,395	3,395	–	–	4,395	3,395
Other	773	808	(728)	(412)	45	396
<b>Tax assets/(liabilities)</b>	<b>38,832</b>	<b>33,419</b>	<b>(99,013)</b>	<b>(85,104)</b>	<b>(60,181)</b>	<b>(51,685)</b>
Set-off of tax	(22,811)	(18,269)	22,811	18,269	–	–
Unrecognized deferred tax assets	(8,843)	(8,081)	–	–	(8,843)	(8,081)
<b>Net tax assets/(liabilities)</b>	<b>7,178</b>	<b>7,069</b>	<b>(76,202)</b>	<b>(66,835)</b>	<b>(69,024)</b>	<b>(59,766)</b>

### (b) Unrecognized deferred tax liabilities

At 31 December 2017, a deferred tax liability for temporary differences of RUB 190,649 million (31 December 2016: RUB 158,138 million) related to an investment in subsidiaries was not recognized as the Group is able to control the timing of the reversal of this temporary difference and it is probable that this temporary difference will not reverse in the foreseeable future.

**(c) Unrecognized deferred tax assets**

In accordance with tax legislation of the Russian Federation effective from 1 January 2017, taxable profits can be reduced by the amount of tax losses carried forward for relief during unlimited period of time, at the same time in 2017 to 2020 tax losses offset cannot exceed 50 percent of taxable profits. Up until 2017, the tax legislation set a limit period for tax losses to be carried forward for relief against taxable profits for ten years after they were incurred. In determining future taxable profits and the amount of tax benefits that are probable in the future, the Group's management makes estimates and assumptions including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

Deferred tax assets have not been recognized with respect to tax losses and temporary differences as it is not probable that future taxable profit will be available, against which the loss-making Group's companies can utilize the relevant temporary differences and tax losses.

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

	<u>31 December 2017</u>	<u>31 December 2016</u>
Deductible temporary differences	25,701	27,097
Tax losses	18,513	13,309
<b>Total</b>	<b>44,214</b>	<b>40,406</b>
<b>Unrecognized deferred tax assets at the applicable tax rate</b>	<b>8,843</b>	<b>8,081</b>

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

	<u>1 January 2017</u>	<u>Additions on acquisition of subsidiaries</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>Disposal of subsidiaries and other movement</u>	<u>31 December 2017</u>
Property, plant and equipment	(69,473)	–	(15,710)	–	–	(85,183)
Intangible assets	210	–	44	–	–	254
Available-for-sale investments	(6,850)	–	581	1,728	–	(4,541)
Inventories	353	–	(204)	–	–	149
Trade and other receivables and prepayments	9,943	–	3,946	–	–	13,889
Finance lease liabilities	216	–	(31)	–	–	185
Loans and borrowings	(194)	–	(35)	–	–	(229)
Provisions	4,798	–	597	–	–	5,395
Employee benefits	2,855	–	(104)	610	–	3,361
Trade and other payables	2,666	–	(567)	–	–	2,099
Tax loss carry-forwards	3,395	5	993	–	2	4,395
Other	396	–	(396)	–	45	45
Unrecognized deferred tax assets	(8,081)	–	(762)	–	–	(8,843)
	<b>(59,766)</b>	<b>5</b>	<b>(11,648)</b>	<b>2,338</b>	<b>47</b>	<b>(69,024)</b>

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

## **18 Inventories**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Raw materials and supplies	18,380	17,327
Impairment of raw materials and supplies	(215)	(527)
Other inventories	16,906	16,386
Impairment of other inventories	(21)	(43)
	<b>35,050</b>	<b>33,143</b>

As at 31 December 2017 and 31 December 2016, the Group has no pledged inventories did not pledge inventories as collateral.

**19 Trade and other receivables**

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Non-current trade and other accounts receivable</b>		
Trade receivables	69,415	44,703
Trade receivables impairment allowance	(742)	(790)
Other receivables	609	364
Other receivables impairment allowance	–	(1)
Loans given	144	1,100
<b>Total financial assets</b>	<b>69,426</b>	<b>45,376</b>
Advances given	7,309	7,618
Advances given impairment allowance	(6,635)	(4,786)
VAT on advances from customers	4,383	3,054
	<b>74,483</b>	<b>51,262</b>
<b>Current trade and other accounts receivable</b>		
Trade receivables	200,448	210,744
Trade receivables impairment allowance	(85,608)	(77,887)
Other receivables	29,630	24,434
Other receivables impairment allowance	(14,739)	(10,817)
Loans given	339	392
Allowance for current loans given	(180)	(175)
<b>Total financial assets</b>	<b>129,890</b>	<b>146,691</b>
Advances given	17,113	17,408
Advances given impairment allowance	(8,858)	(9,853)
VAT recoverable	11,709	11,713
VAT on advances from customers	1,031	1,030
Prepaid taxes, other than income tax and VAT	581	627
	<b>151,466</b>	<b>167,616</b>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 28.

**20 Cash and cash equivalents**

	<u>31 December 2017</u>	<u>31 December 2016</u>
Cash at bank and in hand	44,234	47,166
Cash equivalents	57,820	39,804
	<u><b>102,054</b></u>	<u><b>86,970</b></u>

	<u>Rating</u>	<u>Rating agency</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
PJSC Sberbank*	Ba2	Moody's	16,945	14,138
Bank GPB (JSC)*	BB+	Standard & Poor's	11,425	19,749
JSC AB ROSSIYA	ruAA	Expert RA	5,322	5,048
UFK*	–	–	4,464	2,900
PJSC RNCB*	A(RU)	ACRA	3,354	3,456
VTB Bank (PJSC)*	BB+	Standard & Poor's	1,183	150
JSC Alfa-Bank	BB+	Fitch Ratings	815	1,290
Other banks			670	369
Cash in hand			56	57
			<u><b>44,234</b></u>	<u><b>47,166</b></u>

\*Government-related

Cash equivalents primarily consist of bank deposits placed with a number of banks for less than three months.

	<u>Interest rate</u>	<u>Rating</u>	<u>Rating agency</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
Bank GPB (JSC)*	6.00-9.35	BB+	Standard & Poor's	21,263	9,363
VTB Bank (PJSC)*	0.01-10.32	BB+	Standard & Poor's	11,712	17,295
PJSC Sberbank*	4.07-9.50	Ba2	Moody's	8,759	786
JSC AB ROSSIYA	6.75-7.65	ruAA	Expert RA	9,228	121
JSC Alfa-Bank	6.75-10.35	BB+	Fitch Ratings	3,302	4,177
JSC Russian Agricultural Bank	7.00-9.72	BB+	Fitch Ratings	3,282	706
Bank Otkritie Financial Corporation (PJSC)	–	–	–	–	5,907
SMP Bank JSC	–	–	–	–	1,318
Other banks	7.75-10.30			43	37
				<u><b>57,589</b></u>	<u><b>39,710</b></u>

\*Government-related

During 2016, the subsidiary the PJSC Lenenergo carried out measures to create an infrastructure for technological connection within the framework of the fulfilment of obligations under the Agreement with the Ministry of Energy of the Russian Federation (concluded on 30 December 2015 and stipulating the procedure for spending the targeted funds for performing the relevant work in cash volume equal to RUB 14,975 million). According to the decision of the Government of the Russian Federation the remaining part of the targeted funds in the amount of RUB 5,882 million was transferred in the 4<sup>th</sup> quarter of 2017 to the PJSC Lenenergo's loans repayment.

## 21 Equity

### (a) Share capital

Number of shares unless otherwise stated

	Ordinary shares		Preference shares	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Par value	RUB 1	RUB 1	RUB 1	RUB 1
On issue at 1 January	195,995,579,707	161,078,853,310	2,075,149,384	2,075,149,384
On issue at end of year, fully paid	198,827,865,141	195,995,579,707	2,075,149,384	2,075,149,384

### (b) Ordinary and preference shares

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

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

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

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

### (c) Issue of additional shares

By the decision of the Board of Directors of PJSC ROSSETI (Minutes No. 248 of 21 December 2016), it was approved to increase the Company's charter capital through issuance of 3,259,955,215 additional ordinary shares with a par value of RUB 1 each. The offering price was determined at RUB 1.0424 per share. The total number of shares placed of the additional issue amounted 2,832,285,434. As a result of the additional issue, the share of the Russian Federation in the Company's authorized capital increased to 88.04%, in ordinary shares - to 88.89% (as at 31 December 2016: in the authorized capital - 87.90%, in ordinary shares - 88.75%). As at 9 June 2017, the changes to the charter capital were registered.

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

***Shares issued by subsidiaries***

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

In February 2017 the Group additionally purchased 9,927,951,400 shares of IDGC of South of this issue and paid in cash RUB 993 million.

On 7 April 2017 the Extraordinary General Meeting of Shareholders of PJSC IDGC of South, approved an increase in its share capital through the issuance of additional 13,015,185,446 ordinary shares at a par value of RUB 0.1 each. In 2017 the Group additionally purchased 7,860,248,600 shares of PJSC IDGC of South from the issue. As at 31 December 2017, inclusive of actually outstanding shares of the current issue, the Group's ownership interest amounted to 65.12%.

On 19 September 2016 the Extraordinary General Meeting of Shareholders of PJSC Kubanenergo, the Group's subsidiary, approved an increase in its share capital through the issuance of additional 57,457,846 ordinary shares at a par value of RUB 100 each by public subscription. The approved offering price was RUB 100 per share. On 16 December 2016 equity issue was registered by the Central Bank of the Russian Federation. As at 31 December 2016 the Group made a prepayment of RUB 2,072 million for the shares. As at 31 December 2017 the Group additionally purchased 20,925,205 shares from this issue and, inclusive of actually outstanding shares of the current issue, the Group's ownership interest amounted to 92.78%.

On 5 September 2016, the Extraordinary General Meeting of Shareholders of JSC Chechenenergo, the Group's subsidiary, approved an increase in its share capital through the issuance of additional 5,068,551,655 ordinary shares at a par value of RUB 1 each by private subscription. The approved offering price was RUB 1 per share. As at 31 December 2017, the Group acquired 1,310,260,884 of ordinary shares and, inclusive of actually outstanding shares of the current issue, the Group's ownership interest amounted to 77.64%.

On 30 September 2016 the Extraordinary General Meeting of Shareholders of PJSC IDGC of Volga approved an increase in its share capital through the issuance of additional 8,996,857,669 ordinary shares at a par value of RUB 0.1 each by public subscription. The approved offering price was RUB 0.1 per share. In 2016 the Group acquired 4,709,200,000 shares from this issue.

In 2017 the shareholders of PJSC IDGC of Volga additionally purchased 140,042,413 shares from this issue. As at 31 December 2017, inclusive of actually outstanding shares of the current issue, the Group's ownership interest amounted to 67.97%.

On 23 August 2016 the Extraordinary General Meeting of Shareholders of PJSC IDGC of Northern Caucasus approved an increase in its share capital through the issuance of additional 3,258,695,653 ordinary nominal uncertified shares at a par value of RUB 1.0 each. The offering price was RUB 17.45 per share. As at 31 December 2017, the Group acquired 234,654,020 shares and, inclusive of actually outstanding shares of the current issue, the Group's ownership interest amounted to 97.30%.

**Dividends**

The basis for distribution of profits of the Company's profit to shareholders is defined by Russian legislation as net profit presented in its statutory financial statements prepared in accordance with the Regulations on Accounting and Reporting of the Russian Federation.

The Annual General Shareholders Meeting held on 30 June 2017 decided to declare dividends on ordinary and preference shares of PJSC "ROSSETI" for 2016 in the amount of RUB 3,785 million (in the amount of RUB 0.368355281 per preference share and for ordinary shares at RUB 0.00621446 per ordinary share). Dividends for 2016 include dividends for the 1<sup>st</sup> quarter of 2016 in the amount of RUB 1,785 million (in the amount of RUB 0.07452614 per preference share and RUB 0.00831813 per ordinary share), the payment decision was made at the Annual General Shareholders Meeting held on 30 June 2016.

**(e) Treasury shares**

Information regarding treasury shares is presented below:

31 December 2017			31 December 2016		
Number of shares, mln.		Cost, mln. RUB	Number of shares, mln.		Cost, mln. RUB
Ordinary	Preference		Ordinary	Preference	
1,486	308	2,702	1,486	308	2,702

**22 Earnings per share**

The calculation of basic earnings per share for the year ended 31 December 2017 was based on the earnings attributable to ordinary shareholders for 2017 in the amount of RUB 102,315 million (for 2016: earnings of RUB 74,615 million), and a weighted average number of ordinary shares outstanding of 197,087 million in 2017 (for 2016: 193,933 million). The Company has no dilutive financial instruments.

<i>In millions of shares</i>	2017	2016
<b>Ordinary shares at 1 January</b>	<b>195,996</b>	<b>161,079</b>
Effect of treasury shares	(1,486)	(1,486)
Effect of issued shares	2,577	34,340
<b>Weighted average number of shares for the year ended 31 December</b>	<b>197,087</b>	<b>193,933</b>
	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
Weighted average number of ordinary shares outstanding, for the year ended 31 December (millions of shares)	197,087	193,933
Earning for the year attributable to holders of ordinary shares	102,315	74,615
<b>Earnings per ordinary share (in RUB) – basic and diluted</b>	<b>0.52</b>	<b>0.39</b>

## 23 Loans and borrowings

	<u>31 December 2017</u>	<u>31 December 2016</u>
<i>Non-current liabilities</i>		
Unsecured loans and borrowings	220,682	221,423
Unsecured bonds	333,193	326,052
Finance lease liabilities	984	1,146
Less: current portion of long-term finance lease liabilities	(400)	(214)
Less: current portion of long-term loans and borrowings	(22,269)	(41,042)
Less: current portion of long-term bonds	(25,200)	(35,308)
	<u><b>506,990</b></u>	<u><b>472,057</b></u>
<i>Current liabilities</i>		
Unsecured loans and borrowings	3,016	9,906
Promissory notes	359	359
Current portion of long-term finance lease liabilities	400	214
Current portion of long-term loans and borrowings	22,269	41,042
Current portion of long-term bonds	25,200	35,308
	<u><b>51,244</b></u>	<u><b>86,829</b></u>
<i>Including:</i>		
Interests payable on loans and borrowings	233	309
Interests payable on bonds	4,849	5,276
	<u><b>5,082</b></u>	<u><b>5,585</b></u>

*Notes to the Consolidated Financial Statements for the year ended 31 December 2017  
(in millions of Russian rubles, unless otherwise stated)*

	Year of maturity	Effective interest rate		Carrying value	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
<b>Unsecured loans and borrowings</b>					
Unsecured bank loans*	2018-2020	7.70-12.00%	8.00-12.50%	97,847	133,138
Unsecured bank loans*	2018-2020	7.65-10.65%	8.08-10.40%	55,742	31,904
Unsecured bank loans*	2018-2022	8.20-11.70%	9.80-13.00%	52,452	44,235
Unsecured bank loans*	2019-2020	8.18-10.00%	–	7,503	–
Unsecured bank loans	2018-2020	8.62-11.75%	9.25-13.50%	3,568	3,756
Unsecured bank loans	2019-2021	Key rate of CB RF +0.00-0.44%	–	3,103	–
Unsecured bank loans*	2019	Key rate of CB RF +0.80%	Key rate of CB RF+1.00-1.30%	1,845	7,566
Unsecured bank loans*	2020	Key rate of CB RF +0.00%	Key rate of CB RF +0.00%	501	501
Unsecured bank loans	2018	11.75%	14.55%	400	8
Unsecured bank loans	2018	11.50%	9.85%	230	7,009
Unsecured bank loans	2019	11.75%	12.50-14.00%	200	432
Unsecured bank loans	2018	15.00%	–	9	–
Unsecured bank loans	2018	15.50%	15.50-19.00%	1	5
Unsecured bank loans*	2017	–	Key rate of CB RF +1.81%	–	1,529
Unsecured bank loans	2017	–	10.00%	–	424
Unsecured bank loans	2017	–	13.50%	–	200
Unsecured bank loans	2017	–	12.00-14.54%	–	162
Unsecured bank loans	2018	9.05%	11.90%	–	73
Unsecured bank loans*	2017	–	12.90-13.00%	–	61
Unsecured bank loans	2017	–	12.50%	–	50
Unsecured bank loans*	2018	14.50%	13.50-14.50%	–	2
Unsecured loans	2018-2026	0.00-3.00%	0.00-3.00%	297	274
				<b>223,698</b>	<b>231,329</b>

	Year of maturity	Effective interest rate		Carrying value	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
<b>Bonds</b>					
Unsecured bonds	2027-2048	(CPI**-100%) + 1.00% - (CPI-100%) + 2.50%	(CPI-100%) + 1.00% - (CPI-100%) + 2.50%	110,756	111,249
Unsecured bonds	2019-2022	8.30-10.30%	9.65-11.00%	43,872	23,505
Unsecured bonds	2019-2028	7.40-9.00%	7.95-9.00%	43,839	53,590
Unsecured bonds	2050	(CPI-100%) + 1.00%	(CPI-100%) + 1.00%	40,263	40,478
Unsecured bonds	2022-2045	8.15-11.25%	9.15-11.90%	31,660	31,481
Unsecured bonds	2051-2052	7.60-9.35%	9.35%	26,259	10,082
Unsecured bonds	2020	0.10-8.25%	7.50-8.25%	18,200	32,241
Unsecured bonds	2019	8.45%	8.45%	17,943	17,943
Unsecured bonds	2018-2024	9.30%	9.30%	401	426
Unsecured bonds	2020-2025	–	11.80%	–	5,057
				<b>333,193</b>	<b>326,052</b>
<b>Financial lease liabilities</b>	2018-2038	9.50-11.00%	9.50-11.00%	<b>984</b>	<b>1,146</b>
<b>Promissory notes*</b>	on demand	0.00%	0.00%	<b>359</b>	<b>359</b>
<b>Total debt</b>				<b>558,234</b>	<b>558,886</b>

\* State-controlled entities

\*\* Consumer price index – CPI

As at 31 December 2017 and 31 December 2016, loans and borrowings are denominated in roubles.

The Group has not entered into any hedging arrangements with respect to interest rate exposures. Information about the Group's exposure to interest rate risk is disclosed in Note 28.

Financial lease liabilities by repayment term are disclosed below:

	<b>31 December 2017</b>		
	<b>Future minimum lease payments</b>	<b>Interest</b>	<b>Present value of minimum lease payments</b>
Less than one year	497	97	400
Between one and five years	608	223	385
More than five years	249	50	199
	<b>1,354</b>	<b>370</b>	<b>984</b>

  

	<b>31 December 2016</b>		
	<b>Future minimum lease payments</b>	<b>Interest</b>	<b>Present value of minimum lease payments</b>
Less than one year	347	133	214
Between one and five years	935	270	665
More than five years	354	87	267
	<b>1,636</b>	<b>490</b>	<b>1,146</b>

The financial lease liabilities are secured by leased assets.

## 24 Changes in liabilities arising from financing activities

	Principal amount of finance liabilities except finance lease and dividends payable			Interest on finance liabilities except finance lease and dividends payable	Finance lease	Dividends payable	Total
	Total	Non-current	Current				
<b>At 1 January 2017</b>	<b>552,155</b>	<b>471,125</b>	<b>81,030</b>	<b>5 585</b>	<b>1 146</b>	<b>156</b>	<b>559 042</b>
Net cash flows	(70)	70,943	(71,013)	–	(275)	(9,642)	(9,987)
Interests paid (cash flow from operating activities, for reference)	–	–	–	(45,024)	(140)	–	(45,164)
Acquisition - finance lease	–	–	–	–	71	–	71
Discounting, net	62	62	–	–	–	–	62
Interest and dividends payable accruals	–	–	–	26,690	140	9,763	35,593
Interest capitalized	–	–	–	17,856	–	–	17,856
Change in classification	–	(35,745)	35,745	–	–	–	–
Other non-cash movements, net	21	21	–	(25)	42	69	107
<b>At 31 December 2017</b>	<b>552,168</b>	<b>506,406</b>	<b>45,762</b>	<b>5,082</b>	<b>984</b>	<b>346</b>	<b>558,580</b>

## 25 Employee benefits

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

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

	<b>31 December 2017</b>	<b>31 December 2016</b>
Present value of post-employment benefits obligation	31,181	27,208
Present value of other long-term employee benefit obligation	1,536	1,217
<b>Total present value of employee benefit obligation</b>	<b>32,717</b>	<b>28,425</b>

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

	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
<b>Value of assets at 1 January</b>	<b>6,708</b>	<b>6,617</b>
Return on plan assets	444	377
Employer contributions	2,319	1,964
Other movements in the accounts	174	30
Payment of remuneration	(2,936)	(2,280)
<b>Value of assets at 31 December</b>	<b>6,709</b>	<b>6,708</b>

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

Movements in the present value of defined benefit liabilities:

	Year ended 31 December 2017		Year ended 31 December 2016	
	Post-employment benefits obligation	Other long-term employee benefit obligation	Post-employment benefits obligation	Other long-term employee benefit obligation
<b>Defined benefit plan obligations as at 1 January</b>	<b>27,208</b>	<b>1,217</b>	<b>28,231</b>	<b>1,242</b>
Current service cost	1,463	111	1,596	117
Past service cost	126	(23)	(246)	(11)
Interest expense	2,031	87	2,396	103
Remeasurement arising from:				
– Actuarial (gain)/loss arising from demographic assumptions	(895)	(4)	180	12
– Actuarial loss/(gain) arising from financial assumptions	2,686	135	(772)	(31)
– Actuarial loss/(gain) arising from experience adjustment	1,989	170	(1,344)	(54)
Contributions to the plan	(3,427)	(157)	(2,833)	(161)
<b>Defined benefit plan obligations as at 31 December</b>	<b>31,181</b>	<b>1,536</b>	<b>27,208</b>	<b>1,217</b>

Expenses recognized in profit or loss for the period:

	Year ended 31 December 2017	Year ended 31 December 2016
Employees service cost	1,677	1,456
Remeasurement of other long-term employee benefit obligation	301	(74)
Interest expenses	2,118	2,499
<b>Total expenses recognized in profit or loss</b>	<b>4,096</b>	<b>3,881</b>

Amounts recognized in other comprehensive income for the period:

	Year ended 31 December 2017	Year ended 31 December 2016
Actuarial (gain)/loss arising from demographic assumptions	(895)	180
Actuarial loss/(gain) arising from financial assumptions	2,686	(772)
Actuarial loss/(gain) arising from experience adjustment	1,989	(1,344)
<b>Total actuarial loss/(gain) recognized in other comprehensive income</b>	<b>3,780</b>	<b>(1,936)</b>

Movements in remeasurement of employee benefit obligations in other comprehensive income during the year are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Remeasurements at 1 January	10,908	12,844
Movement of remeasurements	3,780	(1,936)
<b>Remeasurements at 31 December</b>	<b>14,688</b>	<b>10,908</b>

The significant actuarial assumptions are as follows:

	31 December 2017	31 December 2016
<b>Financial assumptions</b>		
Discount rate	7,5%	8,5%
Future salary increase	4,5%	4,7%
Inflation rate	4,0%	4,7%
<b>Demographic assumptions</b>		
Expected age of retirement:		
Men	60	60
Women	57	55
Average level of staff movement	6,7%	6,0%

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

	Change in the assumption	Impact on obligation
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 6.3%
Future salary growth	Increase/decrease by 0.5%	Increase/decrease by 4.1%
Future growth of benefits (inflation)	Increase/decrease by 0.5%	Increase/decrease by 1.5%
Level of staff movement	Increase/decrease by 10%	Decrease/increase by 2.3%
Mortality level	Increase/decrease by 10%	Decrease/increase by 1.3%

	31 December 2017	31 December 2016
Defined benefit liability	(32,717)	(28,425)
Assets related to the employee benefit plans	6,709	6,708
<b>Total</b>	<b>(26,008)</b>	<b>(21,717)</b>

Expected payments under the defined long-term employee benefit plans to employees in 2018 are RUB 2,711 million, including:

- RUB 2,603 million under the defined benefit plans, including non-state pension schemes;
- RUB 108 million under the other long-term employee benefit schemes.

**26 Trade and other payables**

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Non-current accounts payable</b>		
Trade payables	14,651	201
Other payables	587	357
<b>Total financial liabilities</b>	<b>15,238</b>	<b>558</b>
Advances from customers	24,602	23,140
	<b>39,840</b>	<b>23,698</b>
<b>Current accounts payable</b>		
Trade payables	135,193	130,422
Other payables and accrued expenses	16,124	15,344
Payables to employees	19,872	19,621
Dividends payable	346	156
<b>Total financial liabilities</b>	<b>171,535</b>	<b>165,543</b>
Advances from customers	71,264	72,624
	<b>242,799</b>	<b>238,167</b>
<b>Taxes payable</b>		
Value-added tax	9,170	14,861
Property tax	5,304	4,445
Social security contributions	3,476	3,097
Other taxes payable	1,177	1,184
	<b>19,127</b>	<b>23,587</b>
	<b>261,926</b>	<b>261,754</b>

As at 31 December 2017 long-term accounts payable mainly relates to contracts for the purchase of property, plant and equipment in instalments.

The Group's exposure to liquidity risk related to payables is disclosed in Note 28.

**27 Provisions**

	<b>2017</b>	<b>2016</b>
<b>Balance at 1 January</b>	<b>14,305</b>	<b>11,421</b>
Increase for the year	11,876	14,059
Decrease due to reversal of provisions	(6,767)	(4,312)
Provisions used	(8,853)	(6,863)
<b>Balance at 31 December</b>	<b>10,561</b>	<b>14,305</b>

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

## 28 Financial risk and capital management

The Group's ordinary financial and business activities expose it to a variety of financial risks, including but not limited to the following: market risk (foreign exchange risk, interest rate risks related to changes in the fair value of the interest rate and the cash flow interest rate, and price risk), credit risk, and liquidity risk.

Such risks give rise to the fluctuations of profit, reserves and equity and cash flows from one period to another.

The Group's financial management policy aims to minimise or eliminate possible negative consequences of the risks for the financial results of the Group. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

### (a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

#### (i) Trade and other receivables

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

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

The Group does not require collateral with respect to receivables.

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

#### (ii) Exposure to credit risk

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

	Carrying amount	
	31 December 2017	31 December 2016
Promissory notes	231	200
Participation units/shares	609	668
Loans given	303	1,317
Trade and other receivables (less allowance for impairment )	199,013	190,750
Cash and cash equivalents	102,054	86,970
Bank deposits	2,798	15,080
	<b>305,008</b>	<b>294,985</b>

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

	Carrying amount	
	31 December 2017	31 December 2016
North-West region	12,735	19,822
Central region	109,716	93,192
Ural and Volga region	26,623	23,683
South region	21,523	23,391
Siberian region	12,856	16,568
Other regions	60	114
	<b>183,513</b>	<b>176,770</b>

The Group's ten most significant debtors account for RUB 100,556 million of the trade receivables carrying amount at 31 December 2017 (at 31 December 2016: RUB 75,314 million).

#### *Impairment losses of trade and other receivables*

The aging of trade and other receivables is provided below:

	31 December 2017		31 December 2016	
	Gross	Impairment	Gross	Impairment
Not past due	159,525	(5,244)	133,516	(3,224)
Past due less than 3 months	20,452	(4,303)	28,643	(5,159)
Past due more than 3 months and less than 6 months	11,618	(6,123)	13,965	(4,356)
Past due more than 6 months and less than 1 year	19,123	(9,783)	20,746	(8,560)
Past due more than 1 year	89,384	(75,636)	83,375	(68,196)
	<b>300,102</b>	<b>(101,089)</b>	<b>280,245</b>	<b>(89,495)</b>

The Group analysed that not impaired past due accounts receivable are recoverable with the high level of probability at the reporting date.

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

	2017	2016
<b>Balance at 1 January</b>	<b>(89,495)</b>	<b>(82,626)</b>
Increase for the period	(36,881)	(34,271)
Allowance utilized	4,565	8,415
Decrease due to reversal	20,722	18,987
<b>Balance at 31 December</b>	<b>(101,089)</b>	<b>(89,495)</b>

**Impairment of receivables**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Not overdue, not impaired receivables	154,282	130,292
Not overdue impaired receivables	5,243	3,224
Overdue, not impaired receivables	44,732	60,458
Overdue impaired receivables	95,845	86,271
	<b>300,102</b>	<b>280,245</b>

**(b) Liquidity risk**

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

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

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

As of 31 December 2017, the amount of free limit on open but unused credit lines of the Group was RUB 437,473 million (31 December 2016: RUB 326,680 million). The Group has opportunity to attract additional financing within the corresponding limits, including for the purpose of execution of the short-term obligations.

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

<b>31 December 2017</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>0-1 years</b>	<b>1-2 years</b>	<b>2-3 years</b>	<b>3-4 years</b>	<b>4-5 years</b>	<b>Over 5 years</b>
<b>Non-derivative financial liabilities</b>								
Loans and borrowings	223,698	268,644	41,312	103,176	95,595	11,495	16,393	673
Bonds	333,193	550,624	41,262	49,990	63,722	30,412	43,030	322,208
Promissory notes	359	359	359	–	–	–	–	–
Finance lease liabilities	984	1,353	496	178	164	149	117	249
Trade and other payables	186,773	191,932	172,691	4,006	4,862	5,834	919	3,620
	<b>745,007</b>	<b>1,012,912</b>	<b>256,120</b>	<b>157,350</b>	<b>164,343</b>	<b>47,890</b>	<b>60,459</b>	<b>326,750</b>
<b>31 December 2016</b>								
<b>Non-derivative financial liabilities</b>								
Loans and borrowings	231,329	271,503	74,879	112,014	76,457	341	7,657	155
Bonds	326,052	556,103	54,105	35,414	44,056	48,879	30,247	343,402
Promissory notes	359	359	359	–	–	–	–	–
Finance lease liabilities	1,146	1,635	345	479	166	153	138	354
Trade and other payables	166,099	165,069	164,466	412	115	9	5	62
	<b>724,985</b>	<b>994,669</b>	<b>294,154</b>	<b>148,319</b>	<b>120,794</b>	<b>49,382</b>	<b>38,047</b>	<b>343,973</b>

**(c) Market risk**

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

**(i) Currency risk**

The majority of the Group's revenues and expenditures, monetary assets and liabilities are denominated in RUB, and as such financial results are insignificantly impacted by changes in exchange rates.

**(ii) Interest rate risk**

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (floating rate debt). Management of the Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or floating rates. However, making a decision about new loans and borrowings, the Group management gives priority to loans and borrowings with fixed interest rates.

**Fair value sensitivity analysis for financial instruments with fixed interest rate**

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

**Cash flow sensitivity analysis for financial instruments with floating interest rate**

As at 31 December 2017 the Group's financial liabilities at floating interest rate amounted to RUB 156,444 million (31 December 2016: RUB 159,584 million). A reasonably possible change of 100 basis points in interest rates would have increased (decreased) equity and profit or loss (net of taxes) for 2017 by RUB 1,252 million (2016: RUB 1,277 million). This analysis assumes that all other variables remain constant and interest expenses are not capitalized.

**(iii) Price risk**

Equity price risk arises from available-for-sale equity securities. The Management of the Group monitors its investment portfolio based on market indices. Significant investments within the portfolio are managed on an individual basis and all buy and sell decisions are taken by the management of the Group. As at 31 December 2017, available-for-sale financial assets exposed to equity price risk amounted to RUB 67,024 million (31 December 2016: RUB 75,315 million). If equity prices had been 10% higher (lower), with all other variables held constant, the other comprehensive income would increase (decrease) by RUB 6,702 million.

**(d) Fair values and carrying amounts**

The fair values and carrying amounts of financial assets and liabilities are as follows:

	Note	31 December 2017		Level of fair value hierarchy		
		Carrying amount	Fair value	1	2	3
Loans given and receivables	19	199,316	199,316	—	—	199,316
Available-for-sale financial assets	16	67,024	67,024	66,298	—	726
Financial assets held to maturity	16	3,039	3,039	—	—	3,039
Cash and cash equivalents	20	102,054	102,054	102,054	—	—
Current and non-current loans and borrowings	23	(558,234)	(552,494)	(114,057)	(297,113)	(141,324)
Trade and other payables	26	(186,773)	(186,773)	—	—	(186,773)
<b>Total:</b>		<b>(373,574)</b>	<b>(367,834)</b>	<b>54,295</b>	<b>(297,113)</b>	<b>(125,016)</b>

	Note	31 December 2016		Level of fair value hierarchy		
		Carrying amount	Fair value	1	2	3
Loans given and receivables	19	192,067	192,067	—	—	192,067
Available-for-sale financial assets	16	75,315	75,315	75,064	—	251
Financial assets held to maturity	16	15,948	15,948	—	—	15,948
Cash and cash equivalents	20	86,970	86,970	86,970	—	—
Current and non-current loans and borrowings	23	(558,886)	(550,885)	(119,116)	(289,422)	(142,347)
Trade and other payables	26	(166,099)	(166,099)	—	—	(166,099)
<b>Total:</b>		<b>(354,685)</b>	<b>(346,684)</b>	<b>42,918</b>	<b>(289,422)</b>	<b>(100,180)</b>

The interest rate used to discount the expected future cash flows for long-term and short-term loans borrowings for the purpose of determining the fair value disclosed as at 31 December 2017 was 7.90 – 9.80% (as at 31 December 2016: 9.02 – 11.91%).

During 2017, there were no transfers between the levels of the fair value hierarchy.

**(f) Capital management**

The primary objectives of the Group's capital management policy are to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain investor, market and creditor confidence to support its business activities.

The Group monitors equity structure dynamics (own and borrowed capital), including gearing ratio, calculated on the data presented in its statutory financial statements prepared in accordance with the Regulations on Accounting and Reporting of the Russian Federation. According to the Group's credit policy, the Group should ensure that its gearing ratio, being the total debt divided by the total equity, does not exceed 1.

The company and its subsidiaries are required to comply with the statutory requirements for the adequacy of own capital, according to which the value of its net assets, determined in accordance with the Regulations on Accounting and Reporting of the Russian Federation, must exceed the amount of the share capital.

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

	Carrying amount	
	31 December 2017	31 December 2016
Total liabilities	985,838	962,039
Less: cash and cash equivalents	(102,054)	(86,970)
<b>Net debt</b>	<b>883,784</b>	<b>875,069</b>
Equity	1,423,561	1,304,639
<b>Debt-to-equity ratio</b>	<b>62.08%</b>	<b>67.07%</b>

## 29 Operating leases

The Group leases a number of land plots owned by local governments under operating leases. Lease agreements were entered into in prior periods and consist of land plots on which power lines, equipment for electricity transmission and other assets are located. The above lease agreements are usually signed for a period of 1 to 49 years and may be extended for a longer period. The lease payments are subject to review on a regular basis to reflect market rent prices. The land title does not pass and the landlord retains control over land usage. The Group determined that since all of the substantial risks and rewards of the land plots are with the landlord, the leases are considered to be operating leases. In addition, the Group leases non-residential premises and vehicles.

Non-cancellable operating lease rentals are payable as follows:

	31 December 2017	31 December 2016
Less than one year	4,384	3,873
Between one and five years	10,666	11,016
More than five years	47,272	34,820
	<b>62,322</b>	<b>47,709</b>

Operating lease expenses for the year ended 31 December 2017 amounted to RUB 6,266 million were included in operating expenses (for the year ended 31 December 2016: RUB 7,514 million).

## 30 Capital commitments

As at 31 December 2017, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment items for RUB 261,598 million, including VAT (as at 31 December 2016: RUB 270,514 million including VAT).

## **31 Contingencies**

### **(a) Insurance**

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

### **(b) Taxation contingencies**

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

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

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on these consolidated financial statements.

### **(c) Legal proceedings**

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

### **(d) Environmental matters**

The Group has been operating in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is being reconsidered. Potential liabilities arising as a result of a change in interpretation of existing regulations, civil litigation or changes in legislation cannot be estimated. Under existing legislation, management believes that there are no probable liabilities, which will have a material adverse effect on the Group's financial position, results of operations or cash flows.

### **(e) Guarantees**

As of December 31, 2017 the Company acts as a guarantor to Infrastructural Investments-3 LLC for the performance of its subsidiaries' obligations under lease agreements. The total amount of the guarantee is RUB 11,556 million.

## 32 Related party transactions

### (a) Control relationships

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

### (b) Transactions with the key management personnel

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

The amounts of the key management personnel remuneration disclosed in the table are recognized as an expense related to the key management personnel during the reporting period and included in personnel costs:

	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
Short-term remuneration, including salary and bonuses	765	776
Post-employment benefits	10	11
<b>Total</b>	<b>775</b>	<b>787</b>

As of 31 December 2017, the carrying value of defined benefit plan, defined contribution plan and other post-employment benefit plans reported in the consolidated statement of financial position includes liabilities related to the key management personnel for RUB 71 million (31 December 2016: RUB 61 million).

### (c) Transactions with government-related entities

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

Revenues from government-related entities for the year ended 31 December 2017 constitute 44% (for the year ended 31 December 2016: 51%) of total Group revenues, including 45% (for the year ended 31 December 2016: 44%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for government-related entities for the year ended 31 December 2017 constitute 33% (for the year ended 31 December 2016: 31%) of total electricity transmission costs.

For the year ended 31 December 2017 interest expenses on government-related banks loans amounted to RUB 17,839 million (for the year ended 31 December 2016: RUB 22,037 million).

As at 31 December 2017 cash and cash equivalents held in government-related banks amounted to RUB 37,490 million (as at 31 December 2016: RUB 40,473 million).

As at 31 December 2017 deposits with an original maturity of more than three months placed in government-related banks amounted to RUB 38 million (as at 31 December 2016: RUB 12,472 million).

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