MANAGEMENT REPORT OF PJSC ROSSETI 2017

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1. Position of the Company in the Energy Industry

The mainstay of the grid segment of the Russian electric power industry is ROSSETI, having shareholdings in 36 subsidiaries and dependent companies, including 15 distributions and one transmission grid company.

The ROSSETI Group accounts for about 70% of all transmission and distribution of Russia's electricity.

ROSSETI works to consolidate electric grid assets, including in the regions of its operations.

Trends in the Industry in 2017

Economic recovery and increased consumption. An upward trend in the economy and GDP growth in 2017 led to a rise in electricity consumption. Consumption and generation in Russia's United Power System increased by 1.3[1] on 2016 (1,040 billion kWh) and 0.5% on 2016 (1,054 billion kWh[2]) respectively. Excluding an additional day in the leap year 2016, electricity consumption rose by 1.6%.

ROSSETI Group's Contribution to the Development of the Industry and Economy

Area	ROSSETI Group's Contribution
Helping Russia become a leader in the World Bank's *Doing Business 2018* rankings *"Despite the spectre of international sanctions … Russia [is marked] as the 35th easiest place in the world to do business, just one place below Japan and ahead of almost a dozen EU member states including Italy and Belgium."* Financial Times	A key event in 2017 was that Russia reached a position among the top 10 economies in the "Getting Electricity" ranking of the World Bank's *Doing Business 2018* rankings (from 30th in 2016).[3]
Building a modern infrastructure for ensuring stable economic development	Russia's first 110 kV digital substation was put into operation.
Providing electricity for the 2018 FIFA World Cup	Three substations (Presnya, Moscow; Stadion, Samara; and Beregovaya, Kaliningrad) included in the 2018 World Cup's electric grid infrastructure were put into operation.

[1] Source: Russia's United Power System: Interim Results (SO UPS Fact Sheet, December 2017)
[2] Source: Russia's United Power System: Interim Results (SO UPS Fact Sheet, December 2017)
[3] The ranking traditionally uses current data for calculations for the following year.

2. Operating Overview

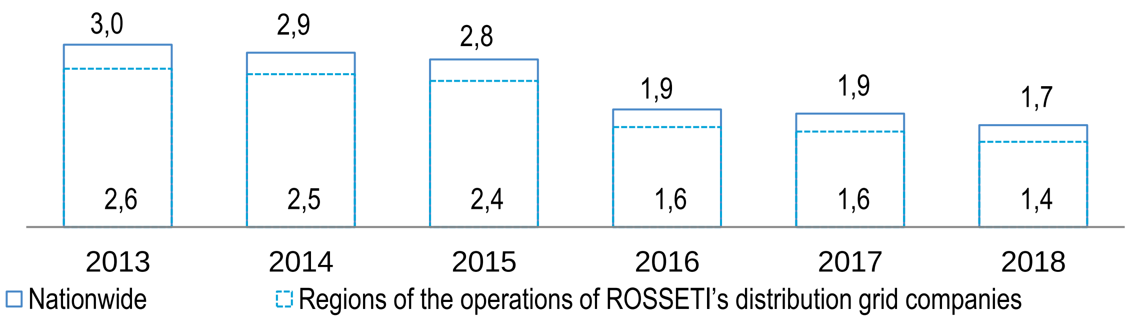
Operating results of ROSSETI

Indicator	As of December 31, 2016	As of December 31, 2017	Change, %
Length of power lines, thousand kilometers	2,31	2,34	1.3
Number of substations, thousand units	496	503	1.4
Transformer capacity, GVA	773	782	1.2

The activities of the ROSSETI Group, as the largest company and the industry's mainstay, are aimed at achieving the targets set by the Strategy for Development of the Electric Grid Sector.

In accordance with the Strategy for Development of the Electric Grid Sector of the Russian Federation, one of the principal goals facing the electric grid sector is to reduce the fragmentation of territorial grid organizations and increase control over them.

Number of territorial grid organizations, thousand entities



The consolidation of electric grid assets encompasses measures to enable the ROSSETI Group to take control of a grid asset that is not part of and/or not under the control of the ROSSETI Group.

Principal goals of the consolidation of electric grid assets

Creation of a single center of responsibility for securing a reliable, high-quality, and affordable electricity supply; reduced number of territorial grid organizations	Increase in ROSSETI subsidiaries' share in pool-based revenues from distribution services provided for regional electricity consumers	Construction of an optimal electric grid infrastructure; introduction of elements of a digital grid

Reliable operation is characterized by the duration of power outages.

In 2017, the ROSSETI Group's entities did not exceed the maximum permissible values of the average outage duration indicator. Some companies[4] considerably improved the required values.

The ROSSETI Group operates the following system of recording process failures (accidents):

Rules for Investigating into the Causes of Accidents in the Electricity Industry (Resolution of the Government of the Russian Federation No. 846 of October 28, 2009)

Internal documents of the Company

Guidelines for Calculating the Level of Reliability and Quality of Supplied Goods and Rendered Services for the Organization Managing the Unified National (All-Russian) Electric Grid and Territorial Grid Organizations (Order of the Ministry of Energy of the Russian Federation No. 1256 of November 29, 2016)

Target-Oriented Multiyear Programs to Reduce the Accident Rate of Electric Grid Facilities

- eliminate injury-risk equipment
- cause OL clearings to comply with regulatory standards
- improve the reliability of distribution networks rated 0.4–20 kV
- increase lightning-surge proofness
- replace obsolete circuit breakers, isolator switches, and short-circuiters
- replace oil-filled feeders with solid-insulated feeders
- replace porcelain and polymer composite insulators for OL rated 35 kV and above
- replace stick-pedestal insulators
- modernize relay protection devices and systems

[4] Kubanenergo; LENENERGO; MOESK; TDC; Tyumenenergo; Yantarenergo; FGC UES, Nizhnovenergo and Marienergo, branches of IDGC of Center and Volga Region; Astrakhanenergo, Volgogradenrgo, Kalmenergo, and Rostovenergo, branches of IDGC of South; Altaienergo, Buryatenergo, Gorno-Altaisk Electric Networks, Krasnoyarskenergo, Kuzbassenergo-RES, Omskenergo, Khakasenrgo, and Tyvaenergo, branches of IDGC of Siberia; Stavropolenergo, Kabbalkenergo, Karachaevo-Cherkesskenergo, Sevkavkazenergo, Ingushenergo, and Chechenenergo, branches of IDGC of Northern Caucasus; and Arkhenergo, Vologdaenergo, and Karelenergo, branches of IDGC of North-West.

3. Innovation

Innovative development is a key instrument for improving the reliability, efficiency, and quality of power supply.

The goal of the ROSSETI Group's Innovative Development Program[5] is to switch over to a technologically new electricity supply with qualitatively new characteristics of reliability, efficiency, accessibility, manageability, and customer orientation in the Russian electric grid sector as a whole.

Main areas of innovative development	• Switch over to digital substations rated 35–110 (220) kV • Switch over to actively adaptive digital grids with a distributed intellectual automation and control system • Switch over to the integrated efficiency of business processes and to the automation of control systems • Use new technologies and materials in the electricity industry

73 subject areas at 15 entities of the ROSSETI Group

Results of 2017
• 26 titles of protection for R&D deliverables • 16 license agreements • 12.34 million rubles of license fees • 16 R&D deliverables in test operation • 18 R&D deliverables in operation at the ROSSETI Group's facilities

10 research, development, and engineering projects to improve systems and devices for lightning protection and increase lightning-surge proofness and reliability for external insulation of overhead lines and substations rated 6–750 kV

A pilot project was launched on January 26, 2017, to supply electricity to isolated areas by replacing inefficient equipment of diesel generation with self-contained hybrid electrical installations based on solar modules

Project operator: IDGC of Siberia

Project site: Menza and Ukyr, Trans-Baikal Territory; 170 kilometers from Russia's United Power System

Planned payback period: 8 years

Objectives:

- develop a new services segment based on return on investment and profitability
- supply electricity to isolated areas and create the conditions for bringing down subsidies
- provide solutions for regional energy efficiency programs
- build a self-contained hybrid electrical installation consisting of solar modules designed to produce a total of 120 kW, two 200 kW diesel generators, and a 300 kWh accumulator

Practical importance:

[5] Innovative Development Program for 2016–2020 with Long-Term Plans Until 2025. Approved by the Board of Directors.

- curb tariff growth
- decrease diesel fuel consumption from 250,000 to 86,000 liters per year
- reduce carbon dioxide emissions by 500 tonnes per year

Two National Projects Implemented by the ROSSETI Group

Design of digital substations and power plants and their introduction into new and rehabilitated power facilities	New construction technologies for overhead power lines using composite power towers

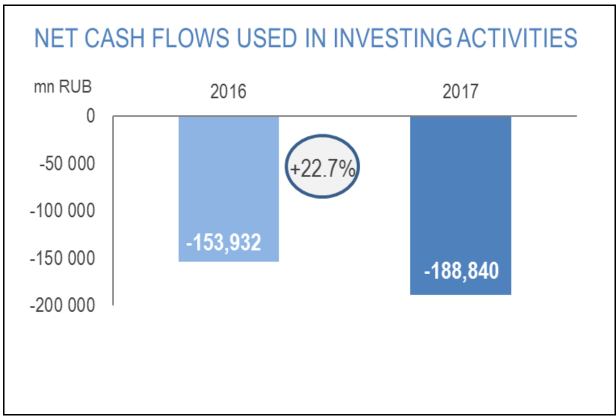
Key strategic areas of the Company's international activities	
	• share best practices and cooperate in creating new-generation digital grids • set up R&D clusters jointly with the world's leading electric utilities and innovative equipment manufacturers to introduce advanced innovative solutions into ROSSETI's grids • ensure the synchronous operation of Russia's United Power System and foreign energy systems and manage interstate power lines in order to support electricity export-import and transit (interstate electricity transmission) and efficiently use the transmission capacity of interstate cross-sections • provide the technological basis for entry into markets in third countries and promote Russian-made electrical equipment in foreign markets • participate in creating a technological infrastructure and regulatory framework for the common electricity market of the Eurasian Economic Union, the Commonwealth of Independent States, and other international sectoral associations

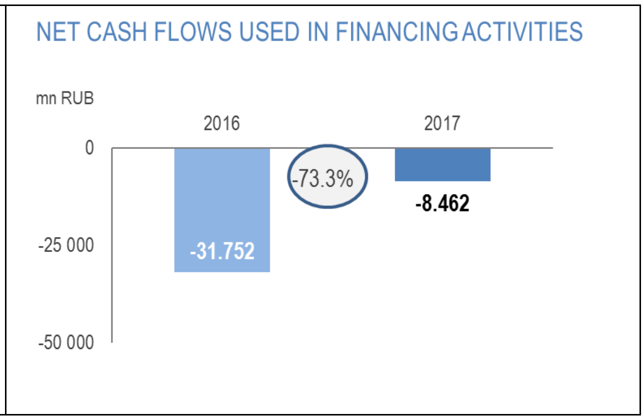
4. Economic Performance

This review is based on the ROSSETI Group's audited consolidated financial results for the year ended December 31, 2017, in accordance with IFRS[6].

Consolidated Key Operating Indicators

[6] Some of the 2016 indicators are reclassified as comparable figures for the current reporting year. All reclassifications are not significant.



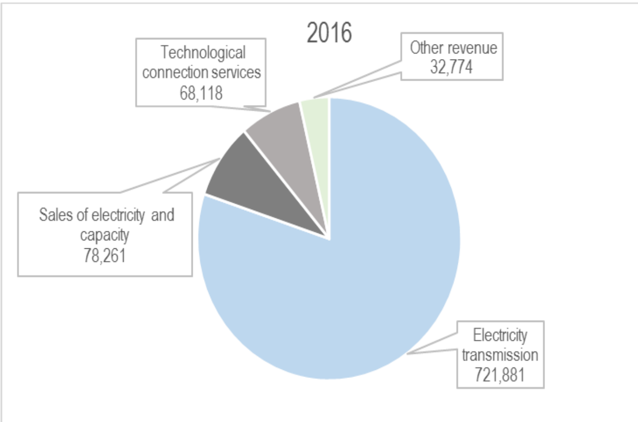


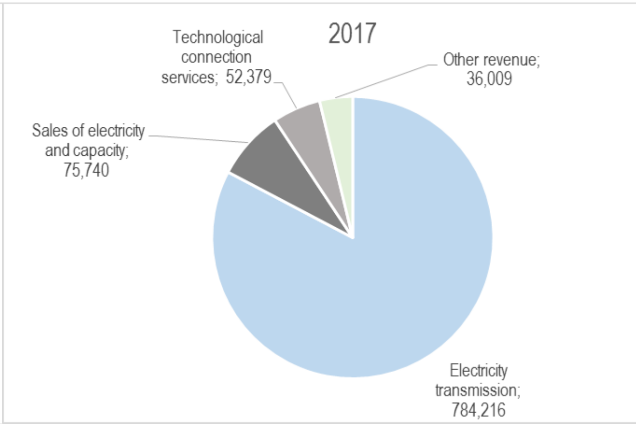
KEY RESULTS OF THE YEAR:

- ✓ Upward changes in all indicators
- ✓ Growth of revenue in 5%
- ✓ Operating expenses decrease
- ✓ Increase of net profit almost in 40%

REVENUE

Structure of Revenue, mn RUB



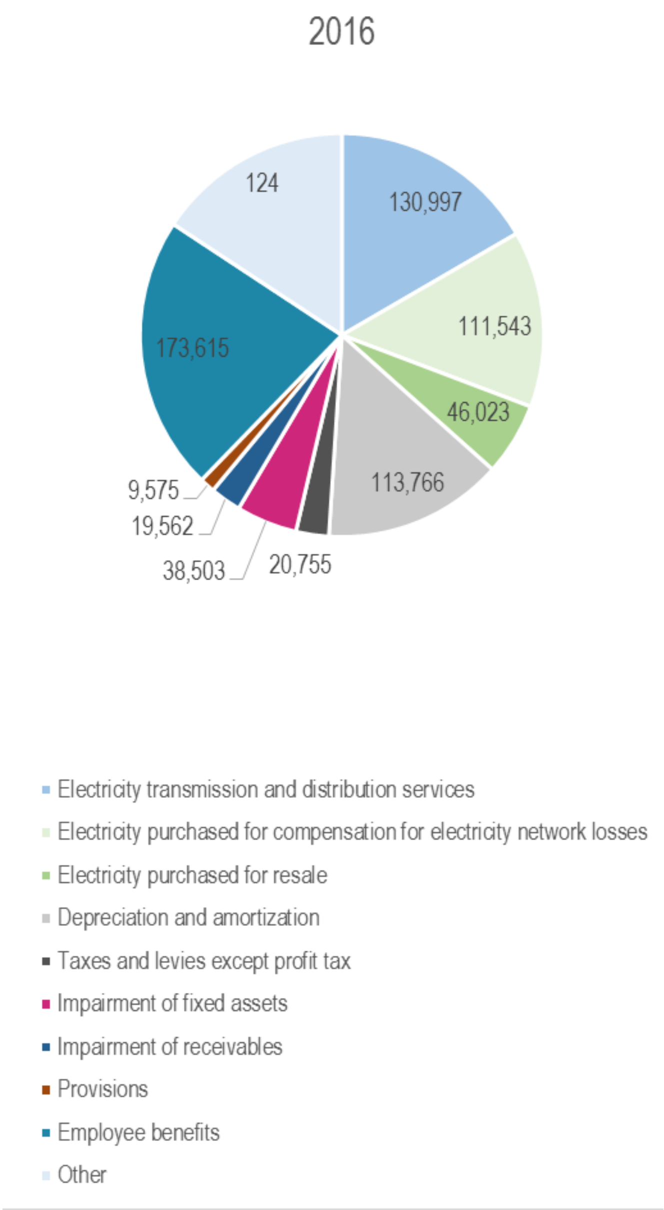


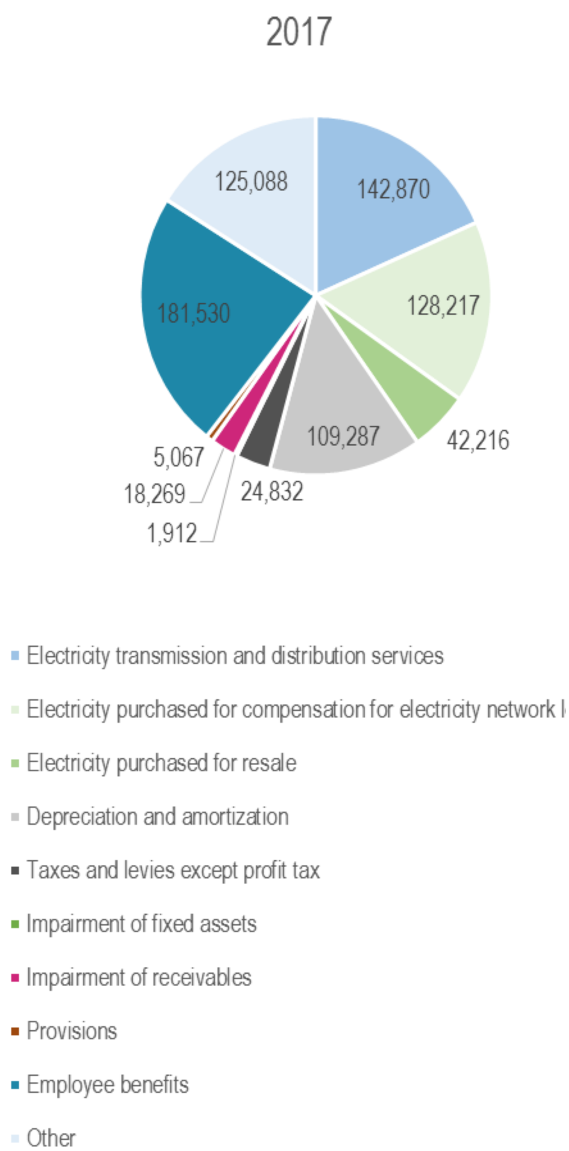
Key factors:

1. Revenue from electricity transmission and distribution grew due to higher net electricity delivery, tariff indexation.
2. Revenue from network connection services decreased due to compliance with the services schedule depending on FGC UES costumers.
3. Electricity and capacity sales were down due to mixed dynamics of electricity sales by different subsidiary companies in the accounting period (including taking up the provider of last resort role).

OPERATING EXPENSES

OPEX structure, mn RUB





Key factors:

1. Expenses associated with electricity distribution services grew due to tariff indexation for other territorial grid organizations.
2. Expenses associated with electricity purchased for compensation for electricity network losses increased due to higher unregulated prices of purchased electricity.
3. Expenses associated with electricity purchased for resale decreased due to lower electricity sales in the reporting period/
4. Tax payments increased due to gradually abolished property tax benefits in relation to power lines.
5. Impairment of fixed assets decreased in 2017 due to no significant adverse changes in expected future cash flows from the use of grid assets.

6. Provisions decreased due to the resolution of disagreements with outside territorial grid organizations in relation to electricity distribution and with electricity retailers in relation to electricity purchased for compensation for electricity network losses
7. Employee benefits increased due to wage indexation for production personnel in accordance with the Sectoral Wage Rate Agreement, adjusted for changes in the consumer price index and an increase in personnel due to taking on the supplier of last resort functions

BALANCE SHEET INDICATORS

Structure of Non-Current Assets

Indicators, bn RUB	2016	2017	% vs. 2016
Property, plant and equipment	1,798,568	1,940,227	7.9
Intangible assets	16,804	16,758	(0.3)
Investments in associates and joint ventures	936	883	(5.7)
Trade and other receivables	51,262	74,883	45.3
Assets related to employee benefits plans	6,708	6,709	-
Financial investments	78,643	69,914	(11.1)
Deferred tax assets	7,069	7,178	1.5
TOTAL NONCURRENT ASSETS	**1,959,990**	**2,116,152**	8.0

Key factors:

- increased fixed assets due to the commissioning of new facilities under the capex program
- increased long-term receivables largely due to a rise in receivables under network connection contracts with payment in installments and due to agreements for interest restructuring of short-term trade receivables

Structure of Current Assets

Indicators, bn RUB	2016	2017	% vs. 2016
Inventories	33,143	35,050	5.8
Financial investments	12,620	149	(98.8)
Income tax prepayments	6,339	4,528	28.6
Trade and other receivables	167,616	151,466	(9.6)
Cash and cash equivalents	86,970	102,054	(17.3)
TOTAL CURRENT ASSETS	**306,688**	**293,247**	**(4.4)**

Key factors:

- decreased receivables due to received payments, impairment provisioning, and agreements for restructuring with changed repayment dates

Structure of Capital

Indicators, bn RUB	2016	2017	% vs. 2016
Share capital	198,071	200,903	1.4
Share premium	212,978	213,098	0.1
Treasury shares	(2,702)	(2,702)	-
Reserve for issue of shares	1,678	-	-
Other reserves	33,165	25,430	(23.3)
Retained earnings	521,300	621,077	19.1
Total equity attributable to owners of the Company	**964,490**	**1,057,806**	**9.7**
Non-controlling interest	340,149	365,755	7.5
TOTAL EQUITY	**1,304,639**	**1,423,561**	**9.1**

Key factors:

- net profit for the reporting period
- dividend payouts
- decreased Inter RAO share price

Structure of Liabilities

Indicators, bn RUB	2016	2017	% vs. 2016
Loans and borrowings	472,057	506,990	7.4
Trade and other payables	23,698	39,840	68.1
Employee benefits	28,425	32,717	15.1
Deferred tax liabilities	66,835	76,202	14.0
Total non-current liabilities	**591,015**	**655,749**	**11.0**
Loans and borrowings	86,829	51,244	(41.0)
Trade and other payables	261,754	261,926	0.1
Provisions	14,305	10,561	(26.2)
Current income tax liabilities	8,136	6,358	(21.9)
Total current liabilities	**371,024**	**330,089**	**(11.0)**
TOTAL LIABILITIES	**962,039**	**985,838**	**2.5**

Key factors:

- increased long-term liabilities due to FGC UES purchase contracts for fixed assets

Key Financial Ratios

Indicators	2016	2017
EBITDA margin	29.4%	33.1%
Net income margin	10.9%	14.5%
Net Debt/ EBITDA	1.5	1.8
Current ratio	0.83	0.89
Financial leverage	0.74	0.69
Long-term loans/gross debt	84%	91%

Debt Capital

Information on Issued and Redeemed Bonds

The ROSSETI Group's entities placed bonds in 2017 with a total value of 41 billion rubles.

Issue Number	Series	Value of Outstanding Bonds, mn RUB	Placement Date	Interest Rate at Placement, %
ROSSETI				
4B02-01-55385-E-001P	**BO-001P-01**	**5,000**	**July 13, 2017**	**8.15%**
IDGC of South				
4B02-02-34956-E	BO-02	5,000	July 19, 2017	9.24%
MOESK				
4B02-09-65116-D	BO-09	10,000	February 27, 2017	9.15%
4B02-10-65116-D	BO-10	10,000	May 18, 2017	8.55%
FGC UES				
4B02-03-65018-D	BO-03	9,000	October 25, 2017	7.75%
4B02-04-65018-D	BO-04	7,000	December 11, 2017	7.60%

The following entities of the ROSSETI Group obtained registration for their programs of exchange-traded bonds in 2017:

Subsidiary	Identification Number	Number Assignment Date	Value	Maximum Term to Maturity
MOESK	4-65116-D-001P-02E	February 8, 2017	up to 80 billion rubles	30 years

IDGC of Urals	4-32501-D-001P-02E	February 8, 2017	up to 25 billion rubles	30 years
Tyumenenergo	4-00159-F-001P-02E	March 1, 2017	up to 25 billion rubles	30 years
IDGC of Volga	4-04247-E-001P-02E	March 17, 2017	up to 25 billion rubles	30 years
LENENERGO	4-00073-A-001P-02E	April 5, 2017	up to 35 billion rubles	30 years

Major Investors in the ROSSETI Group		
Management Companies	Pension Funds	Large Banks

In June 2017, ROSSETI redeemed its Series BO-01 exchange-traded bonds, totaling 5.0 billion rubles, which had been placed on June 22, 2015 (coupon rate: 11.9%).

<u>Events after the reporting period:</u>

On March 29, 2018, the Moscow Exchange assigned an identification number to FGC UES's program of Series 001P exchange-traded bonds, totaling 200 billion rubles, with each issue under the program having the maximum term to maturity of up to 35 years.

Information on Obtained Loans and Borrowings

Debt Portfolio

The Group's debt portfolio consists mostly of bonds and loans issued by Russian banks.

100% of loans and borrowings are denominated in Russian rubles.

The Group's consolidated debt changed insignificantly in 2017.

bn RUB

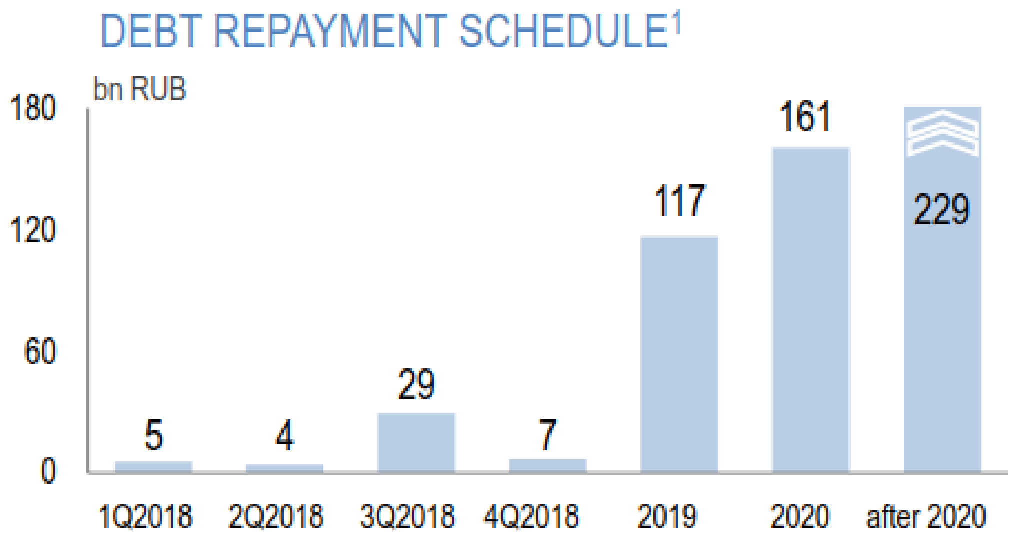
TYPE OF BORROWING	December 31, 2016			December 31, 2017		
	total	principal debt	accrued interest	total	principal debt	accrued interest
Bond loans	326	321	5	333	328	5
Bank loans and other lenders*	233	231	2	225	225	0,2
TOTAL	**559**	**552**	**7**	**558**	**553**	**5**

* *Other lenders include liabilities associated with finance leases, promissory notes, and other loans.*

The average maturity of the Group's debt portfolio as at December 31, 2017, was 9.6 years.

Principal debt repayment schedule as at December 31, 2017:

Bn RUB



INTEREST EXPENSE

Measures to optimize its debt portfolio and positive market trends in 2017 allowed the Group as a whole to reduce its interest expense by more than 20%. The weighted average interest rate for loans and borrowings for the period from December 31, 2016, to December 31, 2017, decreased from 8.9% to 7.3% p.a., remaining below the market average.

bn RUB

TYPE OF INTEREST EXPENSE	For 2016	For 2017	*Change*
INTEREST ACCRUED	**56.2**	**44.5**	***-11.7***
including interest on financial liabilities included in expenses	31.5	26.7	***-4.8***
including capitalized interest	24.7	17.9	***-6.9***
INTEREST PAID	**58.4**	**45.2**	***-13.2***

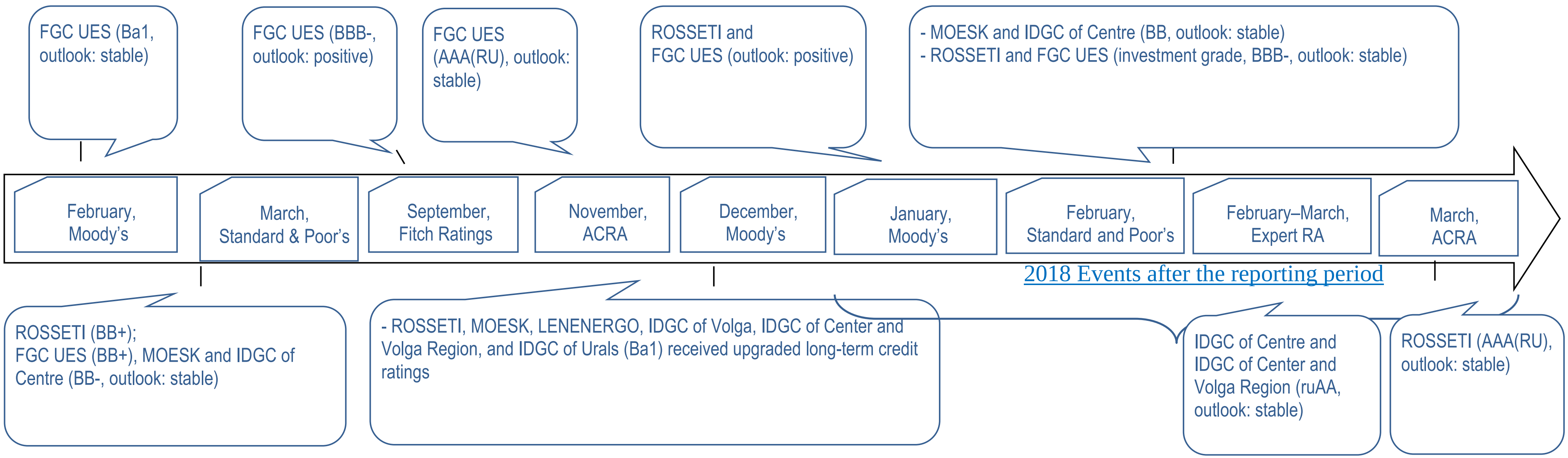
History (Schedule) of Credit Ratings. *Parameters and Factors Determining the Company's and SDCs' Current Position*

The credit ratings received from international rating agencies enhance appeal among investors and make it possible to pursue an effective policy of borrowing in capital markets.

ROSSETI's credit ratings according to the methodologies of Moody's and Standard & Poor's are limited to Russia's sovereign rating and depend on it in many respects.

As of December 31, 2017

Due to Russia's economic recovery in 2017, international rating agencies upgraded the credit ratings of the ROSSETI Group's entities:



National scale credit ratings

Credit ratings of the ROSSETI Group's entities as of December 31, 2017

COMPANY	CREDIT RATING				INITIAL ASSIGNMENT DATE			
	MOODY'S	S&P	FITCH	ACRA				
ROSSETI	Ba1	BB+	-		July 2010/March 2014			
FGC UES	Ba1	BB+	BBB-	AAA(RU)	February 2006	June 2004	October 2013	November 2017
MOESK	Ba1	BB	BB+		October 2007	January 2012	August 2013	
IDGC of Centre	-	BB	-		November 2009			
IDGC of Volga	Ba1	-	-		October 2012			
IDGC of Center and Volga Region	Ba1	-	-		October 2012			
IDGC of Urals	Ba1	-	-		October 2012			
LENENERGO	Ba1	-	-		November 2009			

5. ROSSETI Shareholding Structure and Share Market

As of December 31, 2017, the registered share capital of ROSSETI was 200,903,014,525 rubles and consisted of 200,903,014,525 shares, each with a par value of 1 ruble.

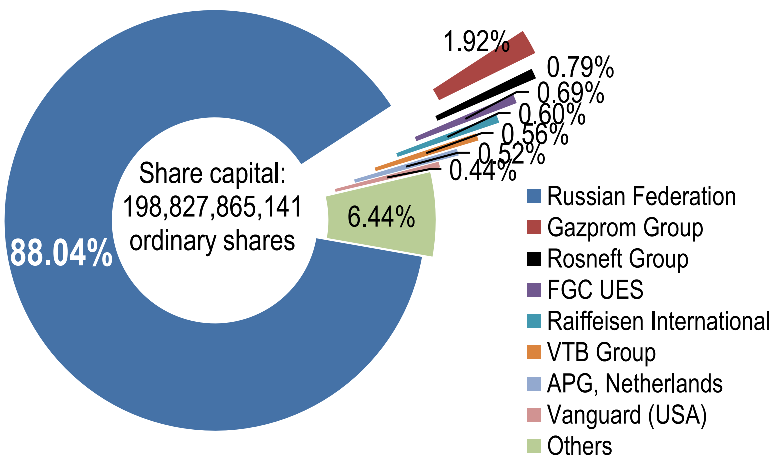
The Company did not issue and place additional shares in 2017.

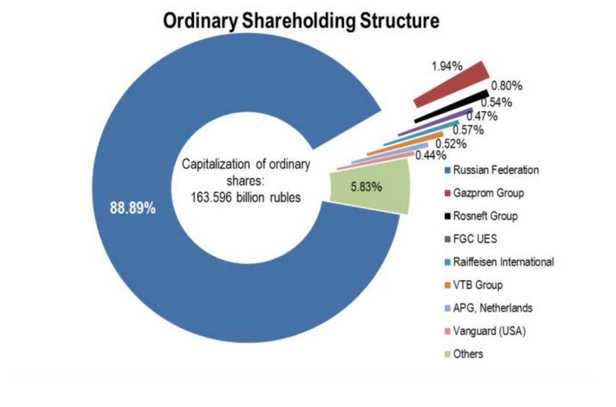
The Russian Federation represented by the Federal Agency for State Property Management holds:

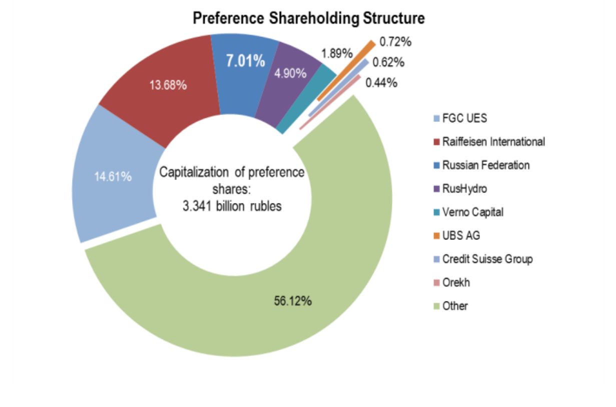
- 176,729,514,113 ordinary shares
- 145,523,224 preference shares

Minority shareholders hold 11.11% and 11.96% of the ordinary shares and share capital respectively.

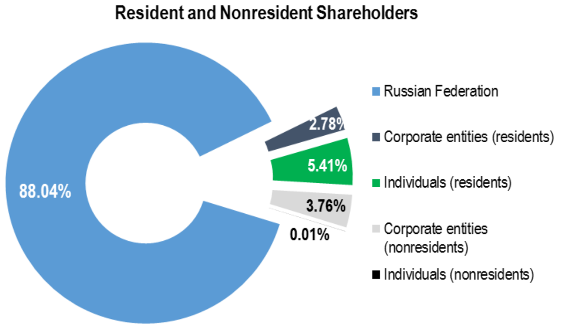
Share Capital Structure[7]







[7] Other than disclosed by the Company, the Company does not have information that any shareholder owns a share of more than 5%.



Russian residents hold more than 96% of the share capital, the remaining less than 4% is held by corporate entities and individuals from 49 foreign countries.

Shareholders with a Shareholding of More than 0.05% by Country as of December 31, 2017

Country		Shareholding, %
Russian Federation		96.23
Cyprus		0.91%
United States		0.91%
United Kingdom		0.59%
Netherlands		0.50%
Switzerland		0.33%
Belize		0.16%
Canada		0.12%
Austria		0.08%
Ireland		0.05%
Other		0.12%

Securities Market Overview

Shares

The share capital of ROSSETI is two hundred billion, nine hundred three million, fourteen thousand, five hundred twenty-five (200,903,014,525) rubles and consists of two hundred billion, nine hundred three million, fourteen thousand, five hundred twenty-five (200,903,014,525) shares, each with a par value of 1 ruble, including one hundred ninety-eight billion, eight hundred twenty-seven million, eight hundred sixty-five thousand, one hundred forty-one (198,827,865,141) ordinary shares and two billion, seventy-five million, one hundred forty-nine, three hundred eighty-four (2,075,149,384) preference shares.

ROSSETI Shares on the Moscow Exchange

Details of ROSSETI Shares

	Ordinary Shares	Preference Shares
Ticker symbol	RSTI	RSTIP
Issued shares	198,827,865,141	2,075,149,384
Par value	1.00	1.00
Par value currency	RUB	RUB
Start date of trading	January 6, 2014	January 6, 2014
ISIN	RU000A0JPVJ0	RU000A0JPVK8
State registration number	1-01-55385-E	2-01-55385-E
Date of the securities trading institutor's decision to include the securities on the List	December 3, 2008	December 3, 2008
Listing level	1	1
Max. price for the last 52 weeks, RUB	1.2825	2.464
Min. price for the last 52 weeks, RUB	0.699	1.465
WA price for the last 52 weeks, RUB	0.9737	2.003
Market price (December 29, 2017)	0.8228	1.61

Stock Market Indices Including the Company's Shares as of December 31, 2017

Index	Weight, %	Index Currency
MOEX Index	0.19 OS	RUB
Power Index	7.25 OS	RUB
	1.27 PS	RUB
	7.25 OS	USD
	1.27 PS	USD
SMID Index	2.44 OS	RUB
Second-Tier Index	1.01 PS	RUB
RTS Index	0.19 OS	USD
State-Owned Companies Index	0.99 OS	RUB
Broad Market Index	0.18 OS	RUB
	0.03 PS	RUB
	0.18 OS	USD

	0.03 PS	USD
RTS SMID Index	2.,37 OS	USD

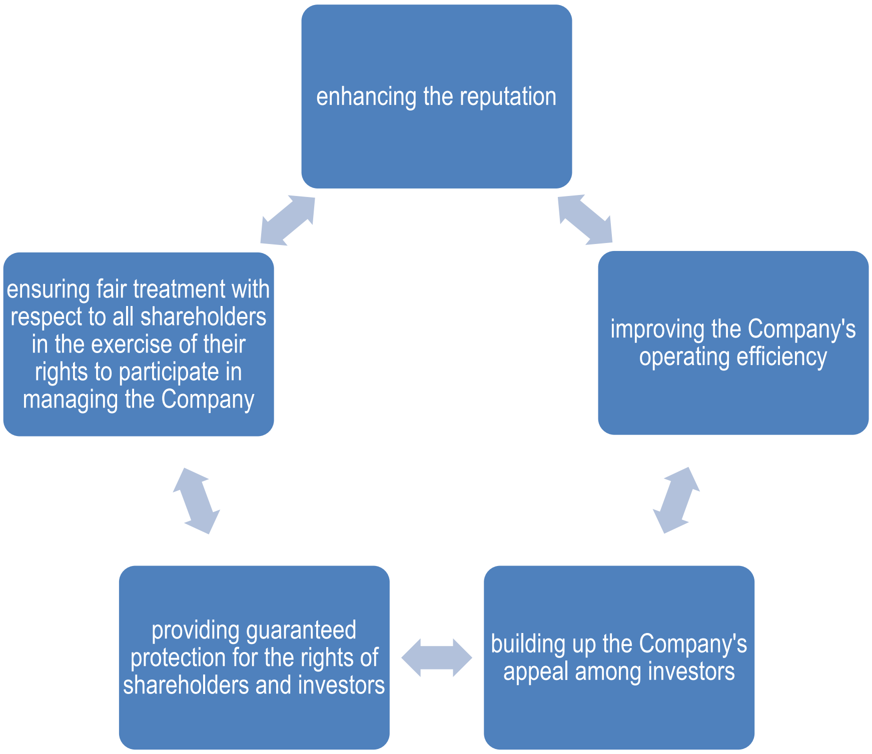
Depositary Receipts

ROSSETI's global depositary receipts began trading on the London Stock Exchange's Main Market on December 8, 2011, and were admitted to trading as interbank repos on the MICEX Stock Exchange on May 28, 2014.

Since the depositary receipts that represent ownership of ROSSETI's shares are traded in the Standard Listing segment of the London Stock Exchange's Main Market, the Company should comply with the requirements for depositary receipts under the Listing Rules and the Disclosure and Transparency Rules

6. Corporate Governance

ROSSETI's Corporate Governance



The corporate governance system of ROSSETI complies with Russian legal requirements, the Listing Rules of the Moscow Exchange and the London Stock Exchange, and the recommendations of the Corporate Governance Code.[8] We also pay close attention to current trends in corporate governance in Russia and abroad.

ROSSETI is a strategic asset of the government.[9] The Company understands this high status and operates in accordance with the requirements set by federal executive authorities.

[8] Here and below, the Corporate Governance Code recommended by the Bank of Russia's letter No. 06-52/2463 of April 10, 2014, for use by joint-stock companies whose securities are admitted to regulated trading.

[9] Pursuant to Decree of the President of the Russian Federation No. 1009 of 04 August,2004, ROSSETI is included on the list of joint-stock companies whose shares are federally owned and the Russian Federation's participation in whose management provides the state's strategic interests, defense capability, and security and protects the morality, health, rights, and legitimate interests of Russian citizens.

Principles of Corporate Governance

- fair and equitable treatment of shareholders
- efficiency and responsibility of the Board of Directors
- control and accountability of the Board of Directors and executive bodies
- effective, transparent, and fair remuneration system
- timely and complete disclosure of corporate information
- social responsibility and stakeholder relations
- effective internal control and risk management

The Company continued in 2017 to improve corporate governance in line with changes to legislation and Russian and foreign trends and in accordance with recommendations of independent consultants.

7++
"Developed practice of corporate governance" reaffirmed

- we comply with legal requirements
- we carry out a considerable number of recommendations of the Corporate Governance Code
- the owners face a low risk of loss associated with corporate governance quality

Implementation of the Recommendations of the Corporate Governance Code Recommended by the Bank of Russia

Recommended by the Code:	Implemented by ROSSETI
create the best possible conditions for participation in the general meeting of shareholders	• shareholders can participate in the meeting by completing electronic ballots
create the conditions for developing a substantiated position on the agenda items of the general meeting of shareholders and coordinating their activities	• shareholders are provided with an expanded list of additional information as part of preparations for the meeting • information for the meeting is published at least 30 days prior to the meeting
enable shareholders to express their opinions on the issues under consideration	• shareholders can use an online form to ask questions • shareholders receive answers to their questions about the agenda during the meeting • shareholders can find advice about the agenda on the forum (during preparations for the meeting)

General Meeting of Shareholders

The General Meeting of Shareholders is the highest management body of ROSSETI. The procedure for preparing and holding the General Meeting of Shareholders is governed by the Articles of Association[10] and the Regulations for the General Meeting of Shareholders of ROSSETI. The Annual General Meeting of Shareholders discussing the Company's performance in 2016 was held on June 30, 2017.

Board of Directors

- Acts in accordance with the laws of the Russian Federation, the Articles of Association, the Corporate Governance Code, and the Regulations for the Board of Directors of ROSSETI[11]
- Consists of 15 members
- The quantitative and qualitative composition is optimal for achieving the Company's current goals and objectives and consistent with the industry's practices

Two compositions of the Board of Directors acted during 2017.

Members of the Board of Directors of ROSSETI after June 30, 2017

Name	Year of Birth	Position [12]
Alexander Valentinovich Novak	1971	Minister of Energy of the Russian Federation
Stanislav Olegovich Ashirov *independent director*	1973	Director General, Mezhregionenergosbyt
Boris Ilyich Ayuyev	1957	Chairman of the Management Board, SO UPS
Oleg Gennadyevich Barkin	1975	Deputy Chairman of the Board, NP Market Council
Vasily Mikhailovich Belov *independent director*	1981	Senior Vice-President for Innovations, Non-Profit Organization the Fund for Development of the Center for Elaboration and Commercialization of New Technologies
Anatoly Vladimirovich Tikhonov	1969	Director General, Russian Energy Agency of the Ministry of Energy of the Russian Federation
Oleg Markovich Dubnov *independent director*	1971	Advisor to the Director General, Institute of Professional Directors

[10] Approved by the Annual General Meeting of Shareholders on June 30, 2017; available on the Company's website at http://www.rosseti.ru/about/documents/.
[11] Approved by the Annual General Meeting of Shareholders on June 30, 2016; available on the Company's website at http://www.rosseti.ru/investors/info/charter_and_internal_documents/.
[12] The positions specified are as of the time of election.

Alexander Sergeyevich Kalinin *independent director*	1966	President, OPORA RUSSIA
Vyacheslav Mikhailovich Kravchenko	1967	Deputy Minister of Energy of the Russian Federation
Andrey Yevgenyevich Murov	1970	Chairman of the Management Board, FGC UES
Nikolay Radyevich Podguzov	1974	Deputy Minister of Economic Development of the Russian Federation
Mikhail Igorevich Poluboyarinov	1966	First Deputy Chairman and member of the Board, Vnesheconombank
Nikolay Dmitryevich Rogalev	1962	Rector, Moscow Power Engineering Institute
Sergey Ivanovich Shmatko	1966	Special Representative of the President of the Russian Federation on International Cooperation in the Electric Power Industry
Nikolay Grigoryevich Shulginov	1951	Chairman of the Management Board and General Director, RusHydro

Members of the Board of Directors of ROSSETI until June 30, 2017

Name	Year of Birth	Position [13]
Alexander Valentinovich Novak	1971	Minister of Energy of the Russian Federation
Stanislav Olegovich Ashirov	1973	Director General, Mezhregionenergosbyt
Boris Ilyich Ayuyev	1957	Chairman of the Management Board, SO UPS
Oleg Gennadyevich Barkin	1975	Deputy Chairman of the Board, NP Market Council
Vasily Mikhailovich Belov	1981	Senior Vice-President for Innovations, Non-Profit Organization the Fund for Development of the Center for Elaboration and Commercialization of New Technologies

[13] The positions specified are as of the time of election.

Oleg Mikhailovich Budargin	1960	Director General, ROSSETI
Oleg Markovich Dubnov	1971	Advisor to the Director General, Institute of Professional Directors
Alexander Sergeyevich Kalinin	1966	President, OPORA RUSSIA
Vyacheslav Mikhailovich Kravchenko	1967	Deputy Minister of Energy of the Russian Federation
Andrey Yevgenyevich Murov	1970	Chairman of the Management Board, FGC UES
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Key Issues Considered by the Board of Directors in 2017

Management of subsidiaries in the key areas of their activities	Defining of the position of ROSSETI (representatives of ROSSETI) on the items on the agendas of the meetings of the boards of directors and the general meetings of shareholders of subsidiaries and dependent companies of ROSSETI
Strategic planning and development	• Approval of the Regulations for the Uniform Technical Policy in the Electric Grids of ROSSETI • Approval of the Environmental Policy of the Electric Grid Sector • Review of the report on the implementation of the IT strategy approved by the Board of Directors of ROSSETI, and the approval of the Information Technology, Automation, and Telecommunications Policy of ROSSETI (ITT Policy) • Review of the report on the implementation of the Long-Term Development Program of ROSSETI

	• Development of the production asset management system of ROSSETI and its subsidiaries and dependent companies
Finance, investment, R&D	• Review of the consolidated investment program of ROSSETI for 2017 and for 2017–2020, including investment efficiency evaluation • Review of the Concept of Setting up the Foundation for Research, Development, and Innovation Support of ROSSETI • Services agreements in relation to organizing the operation of and to developing electric grid facilities between ROSSETI and ROSSETI subsidiaries and dependent companies engaged in electricity distribution
Budget and financial and economic monitoring of the ROSSETI Group	• Review of the RAS- and IFRS-based consolidated business plan of the ROSSETI Group for 2017 and the forecast for 2018–2021 • Approval of the ROSSETI Budget for 2018 • Approval of the Regulations for Dividend Policy of ROSSETI and the Model Regulations for Dividend Policy of Subsidiaries and Dependent Companies of ROSSETI • Review of the scenario conditions for formulating the ROSSETI Group business plan for 2018 and the forecast indicators for 2019–2022
Procurement	• Approval of the Procurement Plan of ROSSETI for 2017 • Approval of a restated version of the Uniform Procurement Standard (Procurement Regulations) of ROSSETI
KPIs	• Approval of the Technique for Calculating and Evaluating the Key Performance Indicators (KPI) of the Director General of ROSSETI and the Sole Executive Bodies of Subsidiaries and Dependent Companies of ROSSETI as applicable from 2017
Approval of internal documents	• Approval of the Corporate Code of Ethics and Business Conduct of ROSSETI • Approval of a restated version of the Program for Disposing of Noncore Assets of ROSSETI and Subsidiaries and Dependent Companies of ROSSETI • Approval of the Procedure for Selling Noncore Assets of ROSSETI and Subsidiaries and Dependent Companies of ROSSETI
Audit, controlling, risks	• Review of the report on the organization, functioning, and effectiveness of the risk management system of the ROSSETI Group for 2016 • Review of the internal auditor's report on the effectiveness evaluation of the internal control and risk management systems

	and corporate governance of ROSSETI and subsidiaries and dependent companies of ROSSETI for 2016

Remuneration for Members of the Board of Directors

The system of remuneration for members of the management bodies and senior managers aims to encourage and motivate people having high qualifications and able to ensure efficient management and attain the Company's strategic goals.

The Company's policy on remuneration for members of the Board of Directors is contained in the Regulations for Remuneration and Compensation for Members of the Board of Directors.[14]

The Nomination and Remuneration Committee oversees the introduction and implementation of the Company's policy on remuneration for members of the Board of Directors. Any draft of the Regulations for Remuneration and Compensation for Members of the Board of Directors is subject to prior review by the Nomination and Remuneration Committee and is subject to consideration by the General Meeting of Shareholders only at the suggestion of the Board of Directors.

Key principles of the remuneration policy:

- remuneration is not paid if the Company has no net profit
- remuneration is paid as a one-off payment for a corporate year (from election to dismissal)
- remuneration is not paid to executive directors, persons who are subject to a statutory restriction or ban on payments from for-profit organizations, or members of the Board of Directors if they participate in less than 50% of meetings
- remuneration is paid as resolved by the General Meeting of Shareholders
- remuneration is paid in the amount depending on the Company's financial performance
- there is no remuneration such as short- or long-term financial incentives, payments for early termination of employment, nonmonetary perquisites, shareholder payments, or remuneration for services provided for the Group's entities

The members of the Company's Board of Directors did not receive loans and did not enter into civil law contracts, including property benefit contracts, in 2017.

Any member of the Board of Directors may decline to receive the remuneration, in full or in part, by notice thereof to the Director General.

[14] Approved by the Annual General Meeting of Shareholders on June 30, 2015; the meeting minutes are available on the Company's website

Any member of the Board of Directors shall be compensated for expenses in connection with participation in a meeting in accordance with the rates applied by the Company to reimbursement for travel expenses.

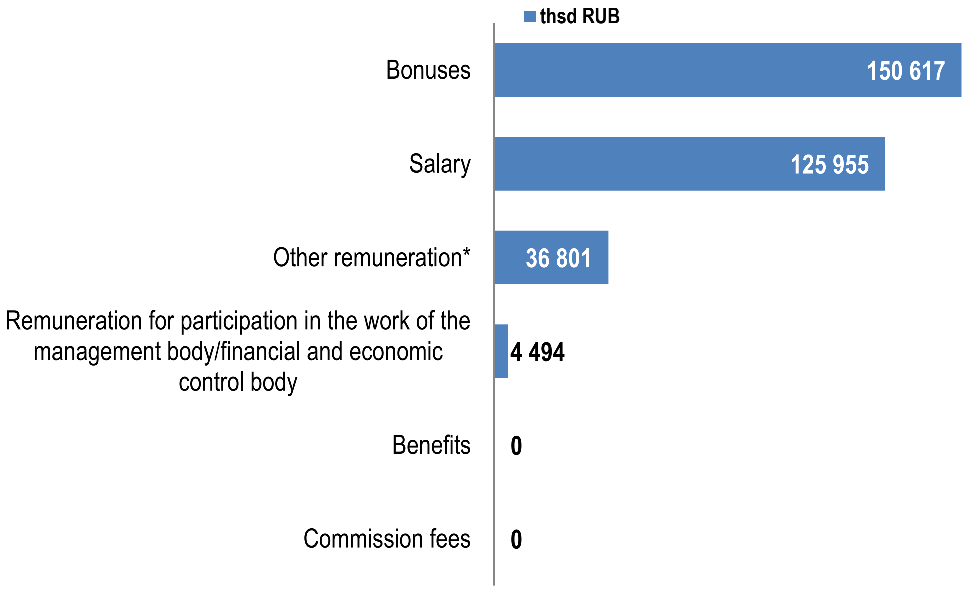
The total amount of remuneration paid to the members of the Board of Directors was 6,971 thousand rubles.

Remuneration for Members of the Management Board and the Sole Executive Body

The motivation system for ROSSETI's senior managers is aimed at incentivizing them to achieve the strategic goals and increase the economic effectiveness of management. The procedures for determining and paying remuneration is are governed by the Regulations for Financial Incentives for Senior Managers and include the fixed and variable parts of pay.

The variable part of remuneration depends on attained key performance indicators (KPIs). The composition, calculation techniques, and target values of KPIs are approved by the Board of Directors of ROSSETI according to the goals of the Strategy for Development of the Electric Grid Sector of the Russian Federation and the Long-Term Development Program of the Company.

Total Amount of Remuneration for Members of the Management Board (Types of Remuneration, Thousand Rubles)



* including severance pay, compensation, and other payments in the event of the early termination of powers

Liability Insurance

ROSSETI takes out liability insurance for directors and officers (including members of the Board of Directors, members of the Management Board, and independent directors) to indemnify the Company's shareholders, creditors, and other persons for their damage (losses) caused by the mistakes and unintentional acts (omission to act) on the part of such directors and officers while they perform their managerial activities.

The term of the insurance contract is from December 25, 2016, to July 24, 2018. The insurance premium under the insurance contract is 22.4 million rubles, while the total insured amount (aggregate limit of liability) is 10 billion rubles. The liability insurance contract provides directors and officers with coverage consistent with international insurance standards as to insured risks and indemnity limits.

Internal Control System

The internal control system (ICS) assures not only safe business development but also the stable functioning of social systems, which is of particular importance to the electric power industry.

Internal Control System		
Goals of the Internal Control System	**Basic Documents**	**Internal Control Activities of the ROSSETI Group**
- efficiency and productivity of activities - compliance with legal requirements and the Company's local regulatory documents - reliability, completeness, and timeliness of the Company's accounts and records	- COSO Internal Control – Integrated Framework - Corporate Governance Code - Internal Control Policy of ROSSETI - Strategy for Developing and Improving the Internal Control System of ROSSETI and Subsidiaries and Dependent Companies of ROSSETI	- control environment - risk assessment - analysis of the Company's activities - verification of results of business transactions - analysis and updating of internal documents - self-assessments of executives - internal audit

Roles of Participants in the Internal Control System

Internal Audit Commission: exercising control of financial and economic activities; preparing proposals/recommendations to improve the internal control system

Board of Directors: approving internal documents; controlling the activities of executive bodies in the principal (high-priority) areas; reviewing the results of the evaluation of internal control system effectiveness

Audit Committee of the Board of Directors: carrying out a preliminary review of the results of the evaluation of internal control system effectiveness; preparing proposals to improve the internal control system

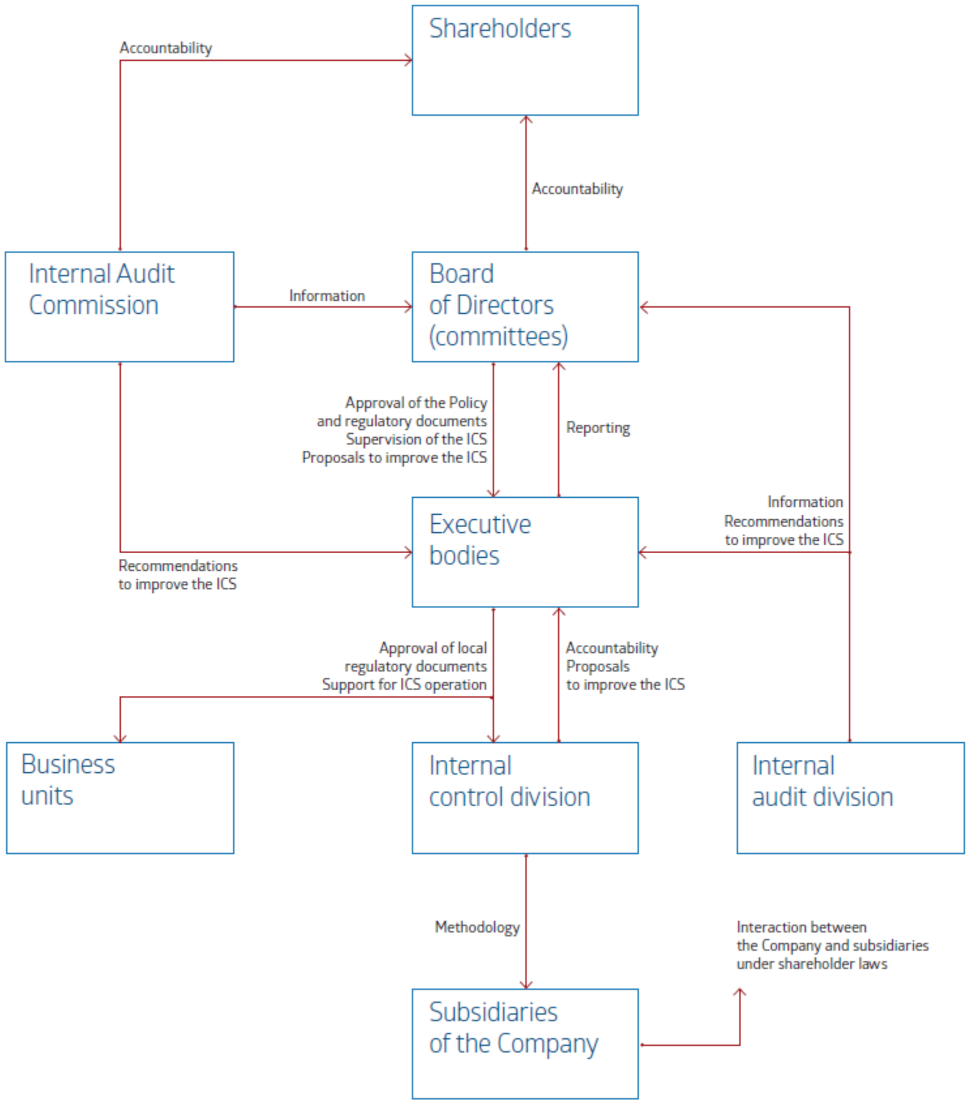
Executive bodies: ensuring that the effective internal control system is created and kept in working order

Divisions: implementing the principles of the internal control system

Internal control division: building up and improving the internal control system

Internal audit division: conducting internal audit; making the internal evaluation of internal control system effectiveness; preparing recommendations to improve the internal control system

The Company takes a unified approach to organizing its internal control system.


Shareholders
Accountability
Accountability
Internal Audit Commission
Information
Board of Directors (committees)
Approval of the Policy
and regulatory documents
Supervision of the ICS
Proposals to improve the ICS
Reporting
Information
Recommendations
to improve the ICS
Executive bodies
Recommendations
to improve the ICS
Approval of local
regulatory documents
Support for ICS operation
Accountability
Proposals
to improve the ICS
Business units
Internal control division
Internal audit division
Methodology
Interaction between
the Company and subsidiaries
under shareholder laws
Subsidiaries of the Company

7. Risk Management

PJSC ROSSETI's performance is affected by risks determined by a number of external factors. Risks are mostly due to macroeconomic factors impacting the Russian economy and certain areas of the Company's activities.

The list of such risks provided below is incomplete since there are other risk which are currently not significant, but may have an adverse impact on the Company's activities if the probability of their occurrence and the level of their significance become higher.

Industry-Specific Risks

Since PJSC ROSSETI does not perform any direct operating activities and only carries out corporate management of its subsidiaries and dependent companies (SDCs), the industry-specific risks described below are primarily associated with the Company's SDCs.

Tariff risks

The core activities of the Company's SDCs, the provision of electricity distribution and transmission services and network connection services, are subject to regulation by the government. Taking account of these special features of PJSC ROSSETI's operations, the Company's industry-specific risks affecting the strategic priorities of PJSC ROSSETI's development include risks associated with tariff regulation. The government's tariff regulation policy provides for a change in grid organizations' regulated tariffs in 2016–2018 for the index lower than actual inflation, which leads to the risk that regulatory authorities may impose a pool of tariffs that would not make it possible to take into account economically feasible revenues.

The risk that regulatory authorities may set tariffs lower than an economically feasible level arises out of the following factors:

- economically feasible expenses incurred by grid companies are not taken into account in full in the course of approving tariffs;

- dividend payment expenses in accordance with directives of the Government of the Russian Federation, actual loan debt service expenses, etc. are not recognized as economically feasible;

- a mechanism for redistributing minimum regulated revenue is applied to smooth out tariffs;

- the ceiling value of cross-subsidies established by the Government of the Russian Federation is limited without due consideration to the objective factors of its growth;

- compared with the indexation of grid tariffs, grid organizations pay more for electricity network losses as a result of an outstripping growth in prices in the wholesale electricity market;

- network connection services are subject to existing and new preferential terms while connection costs are on the rise.

Another tariff risk is that the actual indicators of electricity and capacity consumption are different from the indicators taken into account in the course of making tariff and balancing decisions, including as a result of changes in consumption patterns.

These tariff risks result in a shortfall in tariff revenues received by SDCs from the regulated activities.

Risk management related to tariff regulation is carried out in the following areas:

- interaction with executive authorities of constituent entities of the Russian Federation in government regulation of tariffs in course of designing economically feasible tariffs;

- interaction with federal executive authorities (the Federal Antimonopoly Service, the Ministry of Energy, the Ministry of Economic Development, etc.) in order to systematically improve the principles of tariff regulation;

- appeals filed against regional regulators' decisions by applying the pre-trial resolution of disagreements and by having resort to court proceedings.

The Company also cooperates with federal executive authorities in introducing changes to legislation in relation to the fair distribution of cross-subsidies among all customers, the elimination of grid companies' lost income resulting from the termination of last mile agreements, and the practical application of agreements for regulated activities with regional tariff regulators to hold territorial grid organizations' lost income resulting from interrupted electricity consumption at a fixed level and define a mechanism for settling such lost income.

In addition, to minimize these factors, the Company and SDCs pursue a balanced policy on improving the efficiency of investing and operating activities, aimed at reducing costs and optimally planning the structure of the financing sources.

Risk associated with the decreased volume of electricity distribution services

The risk associated with the decreased volume of electricity distribution services and affecting the strategic priorities of the Company's development is due to the following factors:

1) Overall decline in electricity demand

The principal reason is Russia's contracting investment activity and adverse changes in market conditions, chiefly in the hydrocarbons and metals markets, amid international sanctions. Statistics show the continuing decline in industrial production in the Russian Federation.

2) External electricity supply optimized by customers decreasing electricity consumption from Russia's United Power System (Unified National (All-Russian) Electric Grid) and making increasingly wide use of inhouse generation facilities.

The negative factors affecting Russia's socioeconomic activities were a fall in real household income, a higher level of inflation, a rise in production costs, etc. In order to minimize this risk, the Company and SDCs carry out measures to enhance the reliability of the predicted volume of electricity distribution services for pricing and business planning purposes.

Risks associated with the provision of network connection services for requesting entities affect three aspects: a possible shortage of financing sources for measures to perform contracts, the nonperformance of a network connection contract by a requesting entity, and a requesting entity's failure to utilize the capacity provided.

The principal risk associated with the provision of network connection services is the risk that financing sources may be insufficient for measures to perform network connection contracts.

Factors contributing to this risk are associated with preferential terms provided for customers and with amendments to Russian laws in relation to network connection fees for power-receiving equipment rated below 150 kW.

To minimize the risk, the Company takes the following measures:

- formulating and submitting documents to tariff regulation authorities to justify lost income from network connection services and the economic feasibility of network connection fee rates;

- optimizing technical solutions as part of the preparation of technical specifications for network connection.

The Group also improves approaches to organizing the business process related to the performance of electricity network connection services and works on amendments to legal regulations to set economically feasible network connection fee rates.

The second most important risk is the risk that a requesting entity may fail to perform obligations under network connection contract, including the refusal of connection. This leads to the no utilization of commissioned equipment and to lost profits from electricity distribution services.

In order to mitigate this risk, SDCs cooperate with requesting entities, including explaining the necessity of performing obligations under network connection contracts, together with the implications of their nonperformance (penalties, extended deadlines), and file claims against requesting entities for grid organizations' damages in relation to abandoned network connections, including damages payable to superior grid organizations.

The risk that a requesting entity may fail to utilize the capacity provided is associated with newly connected customers' failure to comply with such planned parameters of provided and accepted loads as specified in network connection requests.

To mitigate the risk, the Company monitors the maximum capacity specified in network connection requests, cooperates with regulatory authorities in preparing the schemes and development programs for the electric power industry of constituent entities of the Russian Federation, and informs requesting entities of main substations' available capacity in the relevant region, including explaining the procedure that should be followed if any requesting entity is interested in being connected to underutilized substations.

Risk associated with the failure of customers to pay for provided electricity distribution services (contested and uncontested overdue receivables).

This risk arises from imperfect operation mechanisms of the retail electricity market and from the insufficiency of existing mechanisms for encouraging customers to make timely payments for electricity distribution services and also results from macroeconomic factors.

This entails disagreements between electric grid companies and retail companies over the volume of consumed electricity and capacity. This leads to overdue receivables related to electricity distribution services provided by SDCs, impairing the liquidity and financial stability of the Company's SDCs.

The Company and SDCs take measures to eliminate the causes of disagreements, reduce contested overdue receivables for their services provided, cooperate with federal governmental authorities in preparing amendments to the rules for the operation of the retail market, form judicial practice, and set positive precedents. In addition, the Company's SDCs implement the Long-Term Development Programs for

Electricity Metering Systems in the Retail Electricity Market in Distribution Grids of PJSC ROSSETI's SDCs approved by their boards of directors.

A significant factor influencing the level of payment for provided electricity distribution services is an imbalance in the existing incentives for the fulfillment of obligations in the wholesale and retail electricity markets. The risk of losing the Wholesale Electricity (Capacity) Market entity status due to failure to comply with extremely tight payment schedules motivates customers (mainly, suppliers of last resort) to give priority to the obligations to pay for electricity purchased in the Wholesale Electricity (Capacity) Market while paying for electricity distribution services on a secondary basis.

With the aim of minimizing the risk of nonpayments, the Company implements the Program for Improving the Efficiency of Measures to Reduce Receivables for Electricity Distribution Services.

Since the Company does not perform any direct operating activities and its core business is corporate management of SDCs, there are no risks associated with possible changes in any prices of raw materials and services used by the Company or associated with possible changes in any prices of the Company's products and/or services, which risks may affect the Company's activities and the performance of its securities-related obligations.

Country and Regional Risks

Since PJSC ROSSETI does not perform any operating activities and is only in charge of corporate management, country and regional risks are primarily incurred by the Company's SDCs.

Risks associated with the political and economic situation in the country and regions.

Country and regional risks incurred by the Company and SDCs are determined primarily by macroeconomic factors existing globally, nationwide, and at regional level. These factors may cause the risks that will eventually lead to a reduction in the Company's and SDCs' revenues and affect their shareholder value.

The volatile external conditions, international sanctions, lower credit ratings, higher inflationary pressures contribute to the ROSSETI Group's economic decline in the regions and an increase in borrowing costs and lead to the risk of a potential growth in SDCs' receivables.

With the aim of mitigating the macroeconomic risk, the Company and SDCs take comprehensive measures to optimize the share of borrowings in their total capital, take out fixed interest rate loans, and enhance the efficiency of operating and investment expenses.

The impact of macroeconomic risks on the volume of electricity distribution services provided by the Company's SDCs and measures to minimize the consequences of materialized risks are described in more detail in Section 2.4.1 "Industry-Specific Risks."

Risks associated with possible militazy conflicts and their implications, imposition of the state of emergency, and strikes in the regions.

A significant contributor to the uninterrupted operation of the Russian electric grid sector will be efforts to ensure the safety and security of its facilities. Damage to SDCs' activities can be caused by illegal interference in SDCs' operations, including acts of terrorism, as well as international terrorism, and by nationalists from certain countries. These acts, along with potential governmental counterterrorism measures and the imposition of the state of emergency in certain regions where the Company's SDCs operate, can have an adverse effect not only on fulfilling SDCs' functions specified in the Strategy for Development of the Electric Grid Sector of the Russian Federation in general but also on the amount of investment and on the value of the Company's securities. However, the Company estimates that these risks are unlikely to occur.

Risks associated with the geographical characteristics of the countrv(ies) and regions, including the potential effects of natural disasters, interruptions to transportation due to remoteness and/or inaccessibility, etc.

The Company's SDCs operate in a considerable area of Russia with diverse climatic, natural, and temperature conditions. Therefore, there are risks associated with natural and climatic emergencies (hurricanes, heavy rains, high water and floods, snow drifts, icing, power outages due to fires, domestic gas explosions, etc.). This can result in interruptions to the region's electricity supply and transportation.

Risks associated with high likelihood of natural disasters and with possible interruptions to transportation due to remoteness and/or inaccessibility are assessed by the Company as negligible.

Financial Risks

Risks associated with exchange rate changes

Currently, all revenues and an overwhelming majority of operating and investing expenses of the Company and its SDCs are denominated in rubles. PJSC ROSSETI and its SDCs do not have any foreign currency-denominated loan debts or any investments in foreign companies whose value is exposed to risks associated with exchange rate changes.

Exchange rate changes have a certain adverse impact on the Company's financial and economic performance. Information about the impact of currency fluctuations on the implementation of capital investment programs is contained below.

Risks associated with interest rate changes

The Company and SDCs borrow to refinance debts and finance SDCs' capital investment programs. The loan portfolio of the Company and SDCs consists mostly of fixed interest rate instruments. To reduce the risk of higher interest costs, the Company and SDCs take measures to minimize the loan portfolio, including by means of optimizing their operating expenses and capital investment programs and by means of using their own funds to partially repay debts.

Risks associated with the effects of inflation

Changes in the consumer price index have certain effects on SDCs' interest costs, profitability, and, consequently, the financial condition of the Company and SDCs and their ability to perform obligations. The government's monetary policy and the electric grid sector's tariff regulation policy give consideration to the consumer price level, changes in the actual purchasing power of the ruble, and the situation in the electricity markets, which impacts companies' profitability.

Risks associated with possible failure to receive money from bank accounts

The Company and its SDCs are provided with payment and cash services by Russian major banks, which minimizes the risk that they may fail to receive money from bank accounts. The risk associated with the possible nonrepayment of fixed-term deposits is minimized by setting ceiling limits on deposits with counterparty banks (as a percentage of banks' asset value as of the latest balance sheet date) and monitoring compliance with such limits.

Risks associated with impaired financial stability and financial solvency

These risks are determined by the simultaneous and unidirectional effects of several factors, and it is reasonable to single out the following factors:

- set tariffs;

- lower financial solvency of electricity consumers;

- lower volume of electricity distribution services provided;

- inflation factors (higher loan interest rates, inflation, changes in US dollar and euro exchange rates, etc.);

- volatility in the financial markets;

- increased number of network connection requests.

The Company and SDCs manage the risk of impaired financial stability and financial solvency by optimizing their capital structure, monitoring compliance with debt limits under the Regulations for Credit Policy approved by the Boards of Directors of the Company and SDCs, pursuing a policy on receivables and payables management, and implementing other measures that help minimize the potential adverse impact of this risk on the Company and SDCs.

Legal Risks

The Company builds its activities on compliance with the applicable legal regulations of the Russian Federation, including currency, tax, and customs laws, and monitors amendments thereto on an ongoing basis.

The Company does not expect any short-term major risk in its financial and economic activities associated with radical changes in tax law and currency control or changes in the rules of customs control and duties.

In general, to minimize various legal risks the Company, on a mandatory basis, conducts preliminary legal review of planned corporate procedures, conducted transactions and other aspects of financial and economic activities provided for by the applicable laws and/or Articles of Association of the Company. Additionally, the Company updates local regulatory documents with respect to claim-related work.

Reputational Risk

Activities of the Company and SDCs are aimed at fulfilling all of their obligations to customers and counterparties. The Company and SDCs are constantly working to secure a reliable and uninterrupted power supply, improve the quality of their services, and increase their customer focus, i.e. achieve the goals defined by the Strategy for Development of the Electric Grid Sector of the Russian Federation. The successful accomplishment of these goals and objectives determines the Company's reputation to a great extent.

In order to mitigate this risk, the Company and SDCs pursue the uniform Policy on Society, Customer, and Government Relations and interact on a constant basis with all stakeholders via several communication channels, including the Internet.

Since SDCs of PJSC ROSSETI are natural monopolies, it is unlikely that they will be affected by a considerable outflow of customers and suppliers or by a decrease in the volume of services due to the possible impact of adverse reputational factors.

Strategic Risk

The long-term development areas of the entire electric power industry as a key industry and the Company and SDCs are determined by the government. Ordinance of the Government of the Russian Federation No. 511-r of April 3, 2013, approved the Strategy for Development of the Electric Grid Sector of the Russian Federation.

The Company's Long-Term Development Program approved by the Board of Directors of PJSC ROSSETI is intended to ensure the achievement of the targets set by the Strategy with due consideration to PJSC ROSSETI's authority and the current economic situation.

The Company's Long-Term Development Program is an internal policy document covering the period from 2015 to 2019 and containing the lists of mechanisms and measures to ensure the achievement of PJSC ROSSETI's strategic goals.

In order to minimize possible risks associated with the achievement of the Company's strategic goals and objectives due to potential changes in the internal and external environments of the Company's and SDCs' operations, the Company organizes the periodic monitoring of how the Long-Term Development Program is carried out and regular external audits of its implementation.

Risks Associated with the Issuer’s Activities

Risks associated with pending legal proceedings in which the issuer participates.

In the reporting period, legal proceedings were initiated by IDGC of Centre, PJSC’s minority shareholders against the Company. PJSC ROSSETI acts as the respondent in the legal proceedings. The risks related to the consideration of this dispute are mainly reputational.

Risks associated with the impossibility of extending the issuer’s license to perform a certain type of activity or use constrained assets (including natural resources).

The above-mentioned risks do not exist, since the Company neither performs nor plans to perform any licensable activities specified in the laws of the Russian Federation or use constrained assets (including natural resources).

Risks associated with the possible liability of the issuer for third-party debts, including the issuer’s subsidiaries.

Currently, the Company is not liable for any third-party debts since the Company did not collateralize such obligations. However, the Company provided suretyship to secure the performance by PJSC ROSSETI’s

subsidiaries of their obligations as part of the implementation of the Smart Grid Construction Investment Project pursuant to Ordinance of the Government of the Russian Federation No. 1059-r of June 16, 2014.

Risks associated with the possible liability of the issuer for third-party debts and obligations are assessed by the Company as negligible.

The Company can assume liability for the debts owed by its SDCs if the Company's instructions binding upon SDCs cause losses or bankruptcy to such SDCs. However, the Company uses its best efforts to prevent such situation and maintain SDCs' financial stability. The above-mentioned risks are unlikely to occur.

Risks associated with the possible loss of customers accounting for at least 10 percent of total revenue from the sale of the Company's products (work, services).

Since the Company's core business is the corporate management of SDCs, the Company does not incur the risk of customer loss.

The Company does not conduct direct operating activities, and its core business is the corporate management of SDCs. The principal risks associated with SDCs' activities are as follows:

− operational and technological risk;

− investment (project) risk.

Operational and technological risk.

One of the main type of operating activities conducted by the Company's SDCs is to provide electricity transmission and distribution services. Operational and technological risks affecting this activity type include the risk of impaired electricity supply reliability.

The following factors contribute to operational and technological risks:

- natural and anthropogenic emergencies impairing the operating capability of electric grid equipment;

− a high proportion of equipment with an expired standard operating life, delays in deciding on measures in relation to equipment;

− nonfulfillment of regulatory and technical requirements as related to failure to conform to the permissible values of the process parameters of electric grid equipment's operation; mistakes made by operating personnel and resulting in emergency situations.

If these risks materialize, this may have a material economic and reputational effect on the Company.

In order to minimize the impact of the above-mentioned factors, the Company and SDCs take the following organizational and technical measures:

1. Raise the level of traceability and manageability in the electric grid sector and reduce the time of remedying emergency situations:

− optimizing operational process and situation control systems;

− developing and improving automated operational process and situation control systems;

− improving systems for analyzing process failures and forecasting their consequences;

− expanding the stock of reserve power supply equipment and the stock of vehicles and special equipment for accident recovery work;

− improving the emergency reserve management system;

− enhancing the performance of mobile accident recovery crews and improving the quality of their personnel;

− cooperating with electricity industry entities, the Ministry of Energy of the Russian Federation, the

Ministry of Civil Defense, Emergencies and Disaster Relief of the Russian Federation, the Hydrometeorological

Centre of the Russian Federation (including in such areas as wildfire suppression, control of critical changes in water body levels, glaze ice control, control of excess wind loads, and control of abnormal weather conditions), executive authorities of constituent entities of the Russian Federation, and Electricity Distribution Security Headquarters.

PJSC ROSSETI created a common database relating to the available resources of PJSC ROSSETI's

SDCs and preparedness for remedying emergency situations in the electric grid sector: the availability of the emergency reserve, backup power sources, mobile accident recovery crews, and mobile substations and factory assembled modular switchgear units; agreements with the Ministry of Civil Defense, Emergencies and Disaster

Relief of the Russian Federation, the Federal Service for Hydrometeorology and Environmental Monitoring of the Russian Federation, contractors, PJSC ROSSETI's SDCs and their branches, and territorial grid organizations; participation in the federal commissions (headquarters) ensuring power supply security for constituent entities of the Russian Federation; information on significant accidents, remedied large-scale power outages, joint exercises, members of the Headquarters, and contact persons; schematic maps of operated electric grid facilities, emergency preparedness certificates; interaction workflows for organizing accident recovery work at substations (overhead lines).

2. Reduce the proportion of equipment with an expired standard operating life and switch over to repairs "as necessary":

− implementing and developing the production asset administration system;

− rehabilitating and modernizing electric grid facilities;

- putting newly built facilities into operation;

− carrying out the target-oriented programs to replace equipment;

− implementing the energy conservation and energy efficiency enhancement program.

3. Provide training and advanced training for production personnel and control their activities. Develop the technical diagnostics system for electrical equipment.

<u>Investment (project) risk.</u>

Since PJSC ROSSETI does not perform any operating activities and is only in charge of corporate management, the investment (project) risk is incurred by the Company's SDCs.

The implementation of SDCs' capital investment programs makes it necessary to mobilize both internal and borrowed considerable financial resources conforming to the regulation parameters.

In this connection, one of the investment risks is the risk of decreased financing sources for the capital investment programs of PJSC ROSSETI's SDCs if the Company's financial and economic condition becomes worse.

As part of efforts to mitigate the investment risk, the capital investment programs of PJSC ROSSETI's

SDCs take account of the following key efficiency criteria:

− raising the reliability and affordability of the grid infrastructure;

− reducing the physical deterioration of electric grid facilities and modernizing them;

− achieving a high utilization rate of commissioned facilities;

− optimizing technical solutions based on the necessity of excluding the use of imported equipment and materials whose value is highly dependent on foreign exchange rates.

The Company conducts the annual monitoring of unit construction costs of investment projects as part of the benchmarking and comparative analysis of unit construction cost indicators of subsidiaries and dependent companies of subsidiaries/subsidiary subsidiaries and dependent companies of PJSC ROSSETI and their branches.

The inadequate financing of capital investment programs and the need to optimize such programs involves the risk that tariff revenues may go down in the event of failure to carry them out. There are also risks of the delayed commissioning of facilities covered by SDCs' investment programs, possibly due to the nonperformance or delayed performance by contractors and suppliers of their obligations. With a view to mitigating such risks and improving the quality of investment project implementation, the Company fulfills the requirements of methodological and administrative documents and uses independent construction inspections at facilities of PJSC ROSSETI's SDCs.

8. ROSSETI Group Structure

Subsidiaries and dependent companies as of December 31, 2017

Name	Location of head office
TRANSMISSION GRID COMPANY	
FGC UES	Moscow
INTERREGIONAL GRID COMPANIES	
IDGC of Centre	Moscow
MOESK	Moscow
IDGC of Center and Volga Region	Nizhniy Novgorod
LENENERGO	Saint Petersburg
IDGC of North-West	Saint Petersburg
Tyumenenergo	Surgut
IDGC of Volga	Saratov
IDGC of Northern Caucasus	Pyatigorsk
IDGC of Siberia	Krasnoyarsk
IDGC of South	Rostov-on-Don
IDGC of Urals	Yekaterinburg
DISTRIBUTION GRID COMPANIES	
Yantarenergo	Kaliningrad
TDC	Tomsk
Chechenenergo, JSC	Grozny
Kubanenergo	Krasnodar
REGIONAL RETAIL COMPANIES	
Karachaevo-Cherkesskenergo	Cherkessk

Kalmenergosbyt	Elista
Tyvaenergosbyt	Kyzyl
Kabbalkenergo	Nalchik
Dagestan Energy Supply Company	Makhachkala
Sevkavkazenergo	Vladikavkaz
OTHER (R&D AND DESIGN, CONSTRUCTION, PROCUREMENT, AND SERVICE ORGANIZATIONS)	
Ingushenergo	Nazran
NURENERG	Grozny
SKB VTI	Moscow
ENIN	Moscow
SevZap NTC	Moscow
REC IDGC	Moscow
Urals Power Engineering Company	Yekaterinburg
JSC VNIPIENERGOPROM	Moscow
VPEC	Samara
ZES	Moscow
Power Grid Optical Networks Engineering	Moscow
NWEMC	Saint Petersburg
IT Energy Service	Moscow
Engineering Center UES Real Estate	Moscow

9. Responsibility Statement

The Management Board confirms that to the best of their knowledge:

1. The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

2. The management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that it faces.

By order of the Board of Directors,

D. V. Nagovitsyn

Chief Accountant

10. Glossary

PJSC «ROSSETI» (ROSSETI)	Public Joint Stock Company «ROSSETI»
GDP	Gross domestic product
GVA	Gigawatt-ampere
FGC	Federal Grid Company of Unified Energy system, Joint Stock Company
IDGC	Interregional Distribution Grid Companies
ICS	Internal control system
IFRS	International Financial Reporting Standards
KPI	Key performance indicators
kWh	kilowatt hour
kV	Kilovolt
MICEX Power Index	MICEX Power Index. The Sector Indices are market capitalization weighted indices calculated based on prices of the most liquid shares of Russian issuers operating in the relevant economic sectors, admitted to trading on MICEX Stock Exchange, and included in the Broad Market Index calculation base.
NC	Network connection
OL	Overhead line
SDCs	Subsidiaries and dependent companies
UPS	UPS United Power System of Russia

11. Contacts

Registered address: 4, Belovezhskaya st., Moscow, 121353, Russian Federation

Correspondence address: 4, Belovezhskaya st., Moscow, 121353, Russian Federation

Location: 4, Belovezhskaya st., Moscow, 121353, Russian Federation

Phone: +7 495 995-5333 (from 09.00 till 18.00 Moscow time)

Phone/Fax: +7 495 664-8133

E-mail: info@rosseti.ru

12. Application

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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05.04.2018
№ РСМ-2412

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 — N.A. Dantser

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

ORNZ in the Register of auditors and audit organizations – 21706004215

Engagement Leader on the audit resulting in this independent auditor's report — N.N. Usanova

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

"PCM РУСЬ"

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.

(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
Results from operating activities		**191,317**	**143,457**
Finance income	12	16,319	13,915
Finance costs	12	(30,034)	(37,187)
Net finance costs		**(13,715)**	**(23,272)**
Share of profit/(loss) of associates and joint ventures (net of income tax)		2	(343)
Profit before income tax		**177,604**	**119,842**
Income tax expense	13	(40,482)	(21,501)
Profit for the year		**137,122**	**98,341**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
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)
Total items that may be reclassified subsequently to profit or loss		**(6,973)**	**42,321**
Items that will never be reclassified subsequently to profit or loss			
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)
Total items that will not be reclassified subsequently to profit or loss		**(3,170)**	**1,807**
Other comprehensive (loss)/income, net of income tax		**(10,143)**	**44,128**
Total comprehensive income for the year		**126,979**	**142,469**
Profit attributable to:			
Owners of the Company		102,315	74,615
Non-controlling interest		34,807	23,726
Total comprehensive income attributable to:			
Owners of the Company		94,580	109,880
Non-controlling interest		32,399	32,589
Earnings per share			
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

ПАО "Россети" МОСКВА

Director for accounting and reporting – Chief Accountant

D.V. Nagovitsyn

(in millions of Russian rubles, unless otherwise stated)

	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
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
Total non-current assets		**2,116,152**	**1,959,990**
Current assets			
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
Total current assets		**293,247**	**306,688**
Total assets		**2,409,399**	**2,266,678**

(in millions of Russian rubles, unless otherwise stated)

	Notes	31 December 2017	31 December 2016
EQUITY AND LIABILITIES			
Equity	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
Total equity attributable to owners of the Company		**1,057,806**	**964,490**
Non-controlling interest		365,755	340,149
Total equity		**1,423,561**	**1,304,639**
Non-current liabilities			
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
Total non-current liabilities		**655,749**	**591,015**
Current liabilities			
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
Total current liabilities		**330,089**	**371,024**
Total liabilities		**985,838**	**962,039**
Total equity and liabilities		**2,409,399**	**2,266,678**

(in millions of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
OPERATING ACTIVITIES			
Profit for the year		137,122	98,341
Adjustments for:			
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
Operating profit before changes in working capital		**314,061**	**293,972**
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)
Cash flows from operating activities before income tax and interest paid		**287,187**	**254,181**
Income tax paid		(29,637)	(20,247)
Interest paid		(45,164)	(58,370)
Net cash flows from operating activities		**212,386**	**175,564**

(in millions of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
INVESTING ACTIVITIES			
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
Net cash flows used in investing activities		**(188,840)**	**(153,932)**
FINANCING ACTIVITIES			
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)
Net cash flows used in financing activities		**(8,462)**	**(31,752)**
Net increase/(decrease) in cash and cash equivalents		**15,084**	**(10,120)**
Cash and cash equivalents at the beginning of year		**86,970**	**97,090**
Cash and cash equivalents at the end of year	20	**102,054**	**86,970**

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

(in millions of Russian rubles, unless otherwise stated)

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

(in millions of Russian rubles, unless otherwise stated)

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

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

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.

(l) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit post-employment plans

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

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

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.

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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.

(in millions of Russian rubles, unless otherwise stated)

5 Significant subsidiaries

	Country of incorporation	31 December 2017 Ownership/voting, %	31 December 2016 Ownership/voting, %
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

(in millions of Russian rubles, unless otherwise stated)

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
Non-controlling percentage	**19.86**	**49.10**	**31.90**	**49.77**	**48.48**	**49.60**	**42.16**		
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)		
Net assets	**802,201**	**175,513**	**121,074**	**44,147**	**45,067**	**46,816**	**17,066**		
Carrying amount of non-controlling interest	**159,024**	**86,773**	**40,208**	**22,110**	**22,430**	**23,564**	**7,233**	**4,413**	**365,755**
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		
Total comprehensive income	**90,362**	**2,490**	**18,689**	**2,744**	**4,044**	**11,077**	**2,426**		
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)	–		
Net increase/ (decrease) in cash and cash equivalents	**(1,869)**	**(63)**	**(6,946)**	**(1,204)**	**193**	**2,106**	**942**		

(in millions of Russian rubles, unless otherwise stated)

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

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.

(in millions of Russian rubles, unless otherwise stated)

(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	Kubanenergo	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	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
Segment revenue	58,247	57,893	71,090	59,139	35,145	42,253	16,135	90,844	44,308	74,682	7,705	91,060	147,372	215,999	162,353	1,174,225
Including																
Electricity transmission	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
Connection services	520	1,006	874	519	415	648	99	733	810	13,377	2,618	1,591	7,184	21,412	2,733	54,539
Resale of electricity	–	–	–	–	860	–	1,668	6,011	–	–	–	548	–	–	66,772	75,859
Other revenue	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
EBITDA	8,597	9,388	11,495	12,025	6,287	6,858	393	23,410	3,004	28,703	3,592	19,323	34,031	146,492	(2,869)	310,729
Segment assets	78,479	147,816	66,359	63,291	44,461	71,857	34,548	101,518	53,951	205,678	24,109	119,666	342,208	1,425,040	148,080	2,927,061
Including property, plant and equipment and construction in progress	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
Segment liabilities	45,461	22,313	25,354	14,936	38,245	36,448	18,800	39,377	28,848	73,941	9,680	61,769	150,282	387,469	141,579	1,094,502

(in millions of Russian rubles, unless otherwise stated)

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**	**Kubanenergo**	**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
Segment revenue	**53,691**	**57,390**	**65,453**	**53,212**	**31,414**	**41,727**	**15,701**	**78,481**	**42,433**	**61,260**	**5,322**	**86,110**	**139,860**	**218,366**	**147,358**	**1,097,778**
Including																
Electricity transmission	52,504	56,773	63,703	52,688	30,768	39,262	13,258	77,387	40,583	54,437	4,515	83,590	128,642	171,133	14,936	884,179
Connection services	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
Resale of electricity	-	-	-	-	-	-	1,490	-	-	-	-	52	-	-	74,749	76,291
Other revenue	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
EBITDA	**5,559**	**11,561**	**10,447**	**9,820**	**4,428**	**9,019**	**1,718**	**13,344**	**6,619**	**21,812**	**1,455**	**16,865**	**37,380**	**212,842**	**16,377**	**378,446**
Segment assets	**75,828**	**143,406**	**64,960**	**63,070**	**44,818**	**67,288**	**35,640**	**91,983**	**58,292**	**188,652**	**14,101**	**122,663**	**341,610**	**1,366,174**	**170,829**	**2,848,514**
Including property, plant and equipment and construction in progress	52,093	134,916	50,641	51,013	28,564	55,911	23,857	73,529	40,731	147,487	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
Segment liabilities	**43,828**	**19,504**	**27,799**	**18,275**	**40,893**	**31,898**	**19,959**	**39,522**	**30,636**	**67,586**	**8,344**	**64,931**	**150,845**	**379,173**	**155,136**	**1,098,321**

(in millions of Russian rubles, unless otherwise stated)

(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:

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

(in millions of Russian rubles, unless otherwise stated)

Reconciliation of reportable segment EBITDA is presented below:

	Year ended 31 December 2017	Year ended 31 December 2016
EBITDA of reportable segments	**310,729**	**378,446**
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
	313,721	**265 232**
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)
Profit for the year per consolidated statement of profit or loss and other comprehensive income	**137,122**	**98,341**

(in millions of Russian rubles, unless otherwise stated)

The reconciliation of reportable segment total assets is presented below:

	31 December 2017	31 December 2016
Total segment assets	**2,927,061**	**2,848,514**
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
Total assets per consolidated statement of financial position	**2,409,399**	**2,266,678**

The reconciliation of reportable segment total liabilities is presented below:

	31 December 2017	31 December 2016
Total segment liabilities	**1,094,502**	**1,098,321**
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
Total liabilities per consolidated statement of financial position	**985,838**	**962,039**

(in millions of Russian rubles, unless otherwise stated)

8 Revenue

	Year ended 31 December 2017	Year ended 31 December 2016
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
	948,344	**901,034**

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

9 Other income, net

	Year ended 31 December 2017	Year ended 31 December 2016
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
	22,261	**30,747**

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.

(in millions of Russian rubles, unless otherwise stated)

10 Operating expenses

	Year ended 31 December 2017	Year ended 31 December 2016
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
Material expenses, including:		
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
Production work and services, including:		
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
Other third-party services, including:		
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
	779,288	**788,324**

(in millions of Russian rubles, unless otherwise stated)

11 Personnel costs

	Year ended 31 December 2017	Year ended 31 December 2016
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
	181,530	**173,615**

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

Recognized in profit or loss	Year ended 31 December 2017	Year ended 31 December 2016
Finance income		
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
	16,319	**13,915**
Finance costs		
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)
	(30,034)	**(37,187)**

(in millions of Russian rubles, unless otherwise stated)

13 Income tax

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

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
	(12,481)	**2,338**	**(10,143)**	**54,885**	**(10,757)**	**44,128**

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	**177,604**		**119,842**	
Income tax at the applicable tax rate	**(35,521)**	**(20)**	**(23,968)**	**(20)**
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
	(40,482)	**(23)**	**(21,501)**	**(18)**

(in millions of Russian rubles, unless otherwise stated)

14 Property, plant and equipment

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

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%).

(in millions of Russian rubles, unless otherwise stated)

15 Intangible assets

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

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%).

(in millions of Russian rubles, unless otherwise stated)

16 Financial investments

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

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.

	Interest rate	Rating	Rating agency	31 December 2017	31 December 2016
OJSC Bank Tavrichesky	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
				2,798	**15 080**

* Government-related banks

As at 31 December 2017 bank deposits placed in OJSC Bank Tavrichesky (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 Tavrichesky 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.

(in millions of Russian rubles, unless otherwise stated)

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
Tax assets/(liabilities)	**38,832**	**33,419**	**(99,013)**	**(85,104)**	**(60,181)**	**(51,685)**
Set-off of tax	(22,811)	(18,269)	22,811	18,269	–	–
Unrecognized deferred tax assets	(8,843)	(8,081)	–	–	(8,843)	(8,081)
Net tax assets/(liabilities)	**7,178**	**7,069**	**(76,202)**	**(66,835)**	**(69,024)**	**(59,766)**

(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.

(in millions of Russian rubles, unless otherwise stated)

(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:

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

(d) Movement in temporary differences during the year

	1 January 2017	Additions on acquisition of subsidiaries	Recognized in profit or loss	Recognized in other comprehensive income	Disposal of subsidiaries and other movement	31 December 2017
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)
	(59,766)	**5**	**(11,648)**	**2,338**	**47**	**(69,024)**

(in millions of Russian rubles, unless otherwise stated)

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

18 Inventories

	31 December 2017	31 December 2016
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)
	35,050	33,143

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

(in millions of Russian rubles, unless otherwise stated)

19 Trade and other receivables

	31 December 2017	31 December 2016
Non-current trade and other accounts receivable		
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
Total financial assets	**69,426**	**45,376**
Advances given	7,309	7,618
Advances given impairment allowance	(6,635)	(4,786)
VAT on advances from customers	4,383	3,054
	74,483	**51,262**
Current trade and other accounts receivable		
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)
Total financial assets	**129,890**	**146,691**
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
	151,466	**167,616**

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

(in millions of Russian rubles, unless otherwise stated)

20 Cash and cash equivalents

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

	Rating	Rating agency	31 December 2017	31 December 2016
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
			44,234	**47,166**

*Government-related

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

	Interest rate	Rating	Rating agency	31 December 2017	31 December 2016
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
				57,589	**39,710**

*Government-related

(in millions of Russian rubles, unless otherwise stated)

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 4th 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 1st 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.

In millions of shares	2017	2016
Ordinary shares at 1 January	**195,996**	**161,079**
Effect of treasury shares	(1,486)	(1,486)
Effect of issued shares	2,577	34,340
Weighted average number of shares for the year ended 31 December	**197,087**	**193,933**

	Year ended 31 December 2017	Year ended 31 December 2016
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
Earnings per ordinary share (in RUB) – basic and diluted	**0.52**	**0.39**

(in millions of Russian rubles, unless otherwise stated)

23 Loans and borrowings

	31 December 2017	31 December 2016
Non-current liabilities		
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)
	506,990	**472,057**
Current liabilities		
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
	51,244	**86,829**
Including:		
Interests payable on loans and borrowings	233	309
Interests payable on bonds	4,849	5,276
	5,082	5,585

(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
Unsecured loans and borrowings					
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
				223,698	**231,329**

(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
Bonds					
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
				333,193	**326,052**
Financial lease liabilities	2018-2038	9.50-11.00%	9.50-11.00%	**984**	**1,146**
Promissory notes*	on demand	0.00%	0.00%	**359**	**359**
Total debt				**558,234**	**558,886**

* 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.

(in millions of Russian rubles, unless otherwise stated)

Financial lease liabilities by repayment term are disclosed below:

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

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

The financial lease liabilities are secured by leased assets.

(in millions of Russian rubles, unless otherwise stated)

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				
At 1 January 2017	552,155	471,125	81,030	5 585	1 146	156	559 042
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
At 31 December 2017	**552,168**	**506,406**	**45,762**	**5,082**	**984**	**346**	**558,580**

(in millions of Russian rubles, unless otherwise stated)

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:

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

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

	Year ended 31 December 2017	Year ended 31 December 2016
Value of assets at 1 January	**6,708**	**6,617**
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)
Value of assets at 31 December	**6,709**	**6,708**

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.

(in millions of Russian rubles, unless otherwise stated)

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
Defined benefit plan obligations as at 1 January	**27,208**	**1,217**	**28,231**	**1,242**
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)
Defined benefit plan obligations as at 31 December	**31,181**	**1,536**	**27,208**	**1,217**

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
Total expenses recognized in profit or loss	**4,096**	**3,881**

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)
Total actuarial loss/(gain) recognized in other comprehensive income	**3,780**	**(1,936)**

(in millions of Russian rubles, unless otherwise stated)

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)
Remeasurements at 31 December	**14,688**	**10,908**

The significant actuarial assumptions are as follows:

	31 December 2017	31 December 2016
Financial assumptions		
Discount rate	7,5%	8,5%
Future salary increase	4,5%	4,7%
Inflation rate	4,0%	4,7%
Demographic assumptions		
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
Total	**(26,008)**	**(21,717)**

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.

(in millions of Russian rubles, unless otherwise stated)

26 Trade and other payables

	31 December 2017	31 December 2016
Non-current accounts payable		
Trade payables	14,651	201
Other payables	587	357
Total financial liabilities	**15,238**	**558**
Advances from customers	24,602	23,140
	39,840	**23,698**
Current accounts payable		
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
Total financial liabilities	**171,535**	**165,543**
Advances from customers	71,264	72,624
	242,799	**238,167**
Taxes payable		
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
	19,127	**23,587**
	261,926	**261,754**

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

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

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

(in millions of Russian rubles, unless otherwise stated)

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
	305,008	**294,985**

(in millions of Russian rubles, unless otherwise stated)

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
	183,513	**176,770**

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)
	300,102	**(101,089)**	**280,245**	**(89,495)**

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

(in millions of Russian rubles, unless otherwise stated)

Impairment of receivables

	31 December 2017	31 December 2016
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
	300,102	**280,245**

(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.

(in millions of Russian rubles, unless otherwise stated)

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

31 December 2017	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
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
	745,007	1,012,912	256,120	157,350	164,343	47,890	60,459	326,750

31 December 2016	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans and borrowings	231,329	271,503	74,879	112,014	76,457	341	7,657	155
Bonds	326,052	556,103	54,105	35,414	44,056	48,879	30,247	343,402
Promissory notes	359	359	359	–	–	–	–	–
Finance lease liabilities	1,146	1,635	345	479	166	153	138	354
Trade and other payables	166,099	165,069	164,466	412	115	9	5	62
	724,985	994,669	294,154	148,319	120,794	49,382	38,047	343,973

(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.

(in millions of Russian rubles, unless otherwise stated)

(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)
Total:		**(373,574)**	**(367,834)**	**54,295**	**(297,113)**	**(125,016)**

	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)
Total:		**(354,685)**	**(346,684)**	**42,918**	**(289,422)**	**(100,180)**

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.

(in millions of Russian rubles, unless otherwise stated)

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)
Net debt	**883,784**	**875,069**
Equity	1,423,561	1,304,639
Debt-to-equity ratio	**62.08%**	**67.07%**

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
	62,322	**47,709**

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.

(in millions of Russian rubles, unless otherwise stated)

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:

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

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.