Consolidated intermediate condensed financial statements

***of Public Joint Stock Company
Interregional Distribution Grid Company of the South
and its subsidiaries***

for three and six months ending on June 30, 2017

(unaudited)

*August 2017*

|  |  |
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| --- | --- | --- | --- | --- | --- |
|  |  |  | **For three months that ended on June 30** |  | **For six months that ended on June 30** |
|  | **Notes** |  | **2017** |  | **2016** |  | **2017** |  | **2016** |
| Revenues | 7 |  | 8,003,807 |  | 7,098,666 |  | 16 640 259 |  | 15 070 635 |
| Operating costs | 8 |  | (7 211 224) |  | (7 351 182) |  | (16 047 242) |  | (15 058 915) |
| Net other income/ (costs) | 8 |  | 275 960 |  | (76 991) |  | 903 591 |  | 741 649 |
| **Operating performance** |  |  | **1 068 543** |  | **(329 507)** |  | **1 496 608** |  | **753 369** |
| Financial income |  |  | 15 808 |  | 24 078 |  | 28 234 |  | 51 849 |
| Financial costs |  |  | (705 943) |  | (685 436) |  | (1 399 152) |  | (1 345 754) |
| Net financial costs |  |  | **(690 135)** |  | **(661 358)** |  | **(1 370 918)** |  | **(1 293 905)** |
| **Pre-tax profit/ (loss)** |  |  | **378 408** |  | **(990 865)** |  | **125 690** |  | **(540 536)** |
| (Costs)/ savings for income tax |  |  | (130 414) |  | 396 304 |  | (243 246) |  | 262 475 |
| **Profit/ (loss) for the period** |  |  | **247 994** |  | **(594 561)** |  | **(117 556)** |  | **(278 061)** |
|  |  |  |  |  |  |  |  |  |  |
| **Other aggregate income** |  |  |  |  |  |  |  |  |  |
| ***Items that cannot be later reclassified as profit or losses*** |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Revaluation of defined benefit pension plans |  |  | 991 |  | (6 619) |  | (1 926) |  | (13 081) |
|  |  |  | **991** |  | **(6 619)** |  | **(1 926)** |  | **(13 081)** |
| ***Items that can be later reclassified as profit or losses*** |  |  |  |  |  |  |  |  |  |
| Net changes in the fair market value of financial assets available for sale |  |  | (297) |  | 802 |  | (548) |  | 1 400 |
| Respective income tax |  |  | 59 |  | (160) |  | 109 |  | (280) |
|  |  |  | **(238)** |  | **642** |  | **(439)** |  | **1 120** |
| **Other aggregate income/ (costs), minus income tax** |  |  | **753** |  | **(5 977)** |  | **(2 365)** |  | **(11 961)** |
| **Total aggregate income/ (costs)** |  |  | **248 747** |  | **(600 538)** |  | **(119 921)** |  | **(290 022)** |
|  |  |  |  |  |  |  |  |  |  |
| **Profit/ (loss) payable to:** |  |  |  |  |  |  |  |  |  |
| Company’s owners |  |  | **247 994** |  | **(594 561)** |  | **(117 556)** |  | **(278 061)** |
|  |  |  |  |  |  |  |  |  |  |
| **Total aggregate income/ (costs) payable to:** |  |  |  |  |  |  |  |  |  |
| Company’s owners |  |  | **248 747** |  | **(600 538)** |  | **(119 921)** |  | **(290 022)** |
|  |  |  |  |  |  |  |  |  |  |
| **Profit/ (loss) per share - base and diluted (in RUB)** | 11 |  | **0,004** |  | **(0,012)** |  | **(0,002)** |  | **(0,006)** |

Consolidated intermediate condensed financial statements was approved and signed by the Company’s management on August 22, 2017:

Director General. B.B. Ebzeyev

Chief Accountant G. G. Savin

Data of the consolidated intermediate condensed income statement and other aggregate income statement should be reviewed together with Notes on pages to 26, making integral part of these consolidated intermediate condensed financial statements.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Notes** |  | June 30, 2017 |  | **December 31, 2016** |
| **ASSETS** |  |  |  |  |  |
| **Non-current assets** |  |  |  |  |  |
| Fixed assets | 9 |  | 21 079 002 |  | 20 575 783 |
| Intangibles |  |  | 130 408 |  | 148 101 |
| Trade and other receivables |  |  | 4 145 |  | 26 558 |
| Investments into financial assets |  |  | 5 946 |  | 6 830 |
| Deferred tax assets |  |  | 452 855 |  | 791 043 |
| **Total non-current assets** |  |  | **21 672 356** |  | **21 548 315** |
|  |  |  |  |  |  |
| **Current assets** |  |  |  |  |  |
| Inventories |  |  | 930 433 |  | 773 315 |
| Income tax receivable |  |  | 585 793 |  | 656 356 |
| Trade and other receivables |  |  | 12 510 057 |  | 13 747 826 |
| Cash and cash equivalents |  |  | 2 216 192 |  | 702 084 |
| **Total current assets** |  |  | **16 242 475** |  | **15 879 581** |
| **TOTAL ASSETS** |  |  | **37 914 831** |  | **37 427 896** |
|  |  |  |  |  |  |
| **EQUITY AND LIABILITIES** |
| **Equity** |  |  |  |  |  |
| Share capital | 10 |  | 6 117814 |  | 4 981 110 |
| Provision for share issue | 10 |  | - |  | 143 909 |
| Capital provisions |  |  | (209 808) |  | (207 443) |
| Retained profit |  |  | (8 140411) |  | (8 022 855) |
| **Total equity** |  |  | **(2 232 405)** |  | **(3 105 279)** |
|  |  |  |  |  |  |
| **Long-term liabilities** |  |  |  |  |  |
| Credits and loans | 12 |  | 20 228 434 |  | 17 232 022 |
| Trade and other payables |  |  | 3 089 539 |  | 118 948 |
| Employee’s remuneration payable |  |  | 111 959 |  | 107 195 |
| **Total long-term liabilities** |  |  | **23 429 932** |  | **17 458 165** |
|  |  |  |  |  |  |
| **Short-term liabilities** |  |  |  |  |  |
| Credits and loans | 12 |  | 3 942 440 |  | 7 223 561 |
| Trade and other payables |  |  | 12 430 548 |  | 14 831 074 |
| Provisions | 13 |  | 344 316 |  | 1 020 375 |
| **Total short-term liabilities** |  |  | **16 717 304** |  | **23 075 010** |
| **TOTAL LIABILITIES** |  |  | **40 147 236** |  | **40 533 175** |
| **TOTAL EQUITY AND LIABILITIES** |  |  | **37 914 831** |  | **37 427 896** |

Data of the consolidated intermediate condensed financial standing statement should be reviewed together with Notes on pages to 26, making integral part of these consolidated intermediate condensed financial statements.

|  |  |
| --- | --- |
|  | **Equity due to the Company’s owners** |
|  | **Share capital** |  | **Provision for share issue** |  | **Provision for revaluation of the financial assets available for sale** |  | **Provision for revaluation of defined benefit pension plans** |  | **Unallocated loss** |  | **Total equity** |
| **Balance as of January 1, 2016** | **4 981 110** |  | **–** |  | **1 307** |  | **(206 060)** |  | **(6 534 733)** |  | **(1 758 376)** |
| **Loss for the period** | – |  | – |  | – |  | – |  | (278 061) |  | (278 061) |
| Net changes in the fair market value of financial assets available for sale | – |  | – |  | 1 400 |  | – |  | – |  | 1 400 |
| Revaluation of defined benefit pension plans | – |  | – |  | – |  | (13 081) |  | – |  | (13 081) |
| Income tax on other aggregate income | – |  | – |  | (280) |  | – |  | – |  | (280) |
| **Total aggregate loss for the period** | **–** |  | **–** |  | **1 120** |  | **(13 081)** |  | **(278 061)** |  | **(290 022)** |
| *Transactions with owners shown directly within equity* | – |  | – |  | – |  | – |  | – |  | – |
| Dividends | – |  | – |  | – |  | – |  | (142 096) |  | (142 096) |
| *Total transactions with owners shown directly within equity* | **–** |  | **–** |  | **–** |  | **–** |  | **(142 096)** |  | **(142 096)** |
| **Balance as of June 30, 2016** | **4 981 110** |  | **–** |  | **2 427** |  | **(219 141)** |  | **(6 954 890)** |  | **(2 190 494)** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance as of January 1, 2017** | **4981 110** |  | **143 909** |  | **2 149** |  | **(209 592)** |  | **(8 022 855)** |  | **(3 105 279)** |
| **Loss for the period** | – |  | – |  | – |  | – |  | (117 556) |  | (117 556) |
| Net changes in the fair market value of financial assets available for sale | – |  | – |  | (548) |  | – |  | – |  | (548) |
| Revaluation of defined benefit pension plans | – |  | – |  | – |  | (1 926) |  | – |  | (1 926) |
| Income tax on other aggregate income | – |  | – |  | 109 |  | – |  | – |  | 109 |
| **Total aggregate loss for the period** | **–** |  | **–** |  | **(439)** |  | **(1 926)** |  | **(117 556)** |  | **(119921)** |
| *Transactions with owners shown directly within equity* | – |  | – |  | – |  | – |  | – |  |  |
| Provision for share issue | – |  | 992 795 |  | – |  | – |  | – |  | 992 795 |
| Capital increase | 1 136 704 |  | (1 136 704) |  | – |  | – |  | – |  | - |
| *Total transactions with owners shown directly within equity* | **1 136 704** |  | **(143 909)** |  | **–** |  | **–** |  | **–** |  | **992 795** |
| **Balance as of June 30, 2017** | **6 117814** |  | **–** |  | **1 710** |  | **(211 518)** |  | **(8 140 411)** |  | **(2 232 405)** |

Data of the consolidated intermediate condensed capital flow statement should be reviewed together with Notes on pages to 26, making integral part of these consolidated intermediate condensed financial statements.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Notes** |  | **For six months ended on** June 30, 2017 |  | **For six months ended on** June 30, 2016 |
| **OPERATING BUSINESS** |  |  |  |  |  |
| **Pre-tax profit/ (loss)** |  |  | **125 690** |  | **(540 536)** |
| *Adjustments* |  |  |  |  |  |
| Depreciation | 8 |  | 1 045 626 |  | 1 125 461 |
| Provision for depreciation of trade and other receivables | 8 |  | (95 038) |  | (133 104) |
| Provisions | 13 |  | (77 550) |  | 823 764 |
| Financial costs |  |  | 1 399 152 |  | 1 345 754 |
| Financial income |  |  | (28 234) |  | (51 849) |
| Loss from withdrawal of fixed assets | 8 |  | 2 182 |  | 2 647 |
| Other no-cash transactions |  |  | (963) |  | (5 318) |
| **Operating cash flows w/o taking into account working capital increase** |  |  | **2 370 865** |  | **2 566 819** |
|  |  |  |  |  |  |
| *Change in:* |  |  |  |  |  |
| Receivables and prepayments receivable |  |  | 1 337 259 |  | (1 279 713) |
| Inventories |  |  | (156 929) |  | (137 867) |
| Trade and other payables |  |  | (226 724) |  | 985 252 |
| Provisions | 13 |  | (598 509) |  | (775 285) |
| Employee’s remuneration payable |  |  | (1 581) |  | (486) |
| **Operating cash flows before income tax payments** |  |  | **(2 724 381)** |  | **1 358 720** |
| Income tax payment |  |  | **–** |  | (664 922) |
| Interest paid |  |  | (1 498 216) |  | (1 391 727) |
| **Net cash flow from / (used in) operating business** |  |  | **2 012 190** |  | **(697 929)** |
|  |  |  |  |  |  |
| **INVESTMENT BUSINESS** |  |  |  |  |  |
| Purchase of fixed assets |  |  | (1 293 377) |  | (485 222) |
| Purchase on intangibles |  |  | (420) |  | (4 335) |
| Receipts from fixed assets sale |  |  | 21 824 |  | 5 193 |
| Interest received |  |  | 25 100 |  | 49 352 |
| **Net cash flow from / (used in) investment business** |  |  | **(1 246 873)** |  | **(435 012)** |
|  |  |  |  |  |  |
| **FINANCIAL BUSINESS** |  |  |  |  |  |
| Loans and credits received |  |  | 10 957 254 |  | 4 692 381 |
| Loans and credits repaid |  |  | (11 201 254) |  | (4 919213) |
| Receipts from share issue | 10,17 |  | 1 778 820 |  |  |
| Dividends paid |  |  | (4) |  | - |
| **Net cash flow from / (used in) financial business** |  |  | **1 534 816** |  | **(226 832)** |
|  |  |  |  |  |  |
| Net increase/ (decrease) of cash and cash equivalents |  |  | 1 514 108 |  | (1 359 773) |
| **Cash and cash equivalents as of the start of reporting period** |  |  | **702 084** |  | **1 587 751** |
| **Cash and cash equivalents as of the end of reporting period** |  |  | **2 216 192** |  | **227 978** |

Data of the consolidated intermediate condensed cash flow statement should be reviewed together with Notes on pages to 26, making integral part of these consolidated intermediate condensed financial statements.

**1. Group and its operations**

**INFORMATION:**

Interregional Distribution Grid Company of the South Public Joint Stock Company (earlier, Open Joint Stock Company) (hereinafter the “Company”, or “IDGC of the South PJSC”) was founded on June 28, 2007, accordong to Resolution No. 192 of RAO Unified Enegy Systems of Russia -- Russian Open Joint Stock Company (hereinafter “RAS UES of Russia OJSC”) adopted on June 22, 2007

The Company was registered at the following address: 49, Bolshaya Savodaya St., Rostov-on-Don, 344002, Russia

Address for correspondence: 49, Bolshaya Savodaya St., Rostov-on-Don, 344002, Russia

In the course of reforms, on March 31, 2008, according to Resolution No. 266, adopted by the Board of Directors, RAO UES of Russia OJSC, on November 30, 2007, and Resolution No. 1795pr/9, adopted by the Administrative Board of RAO UES of Russia OJSC, on December 25, 2007, the Company merged with the following enterprises: Astrakhanenergo OJSC, Kalmenrego OJSC, and Rostovenergo OJSC,

Volgogradenergo OJSC Merger with these enterprises was carried out by exchange of the shares issued by the Company for the shares of the acceding companies. As a result of the merger, the above enterprises ceased to exist as the separate legal entity, and the Company became their legal successor.

Subsidiaries and affiliates of IDGC of the South, PJSC, are shown in Appendix 4

The core line of business of the Company and its subsidiaries (hereinafter “Groups”, or “IDGC of the South Group of Companies”) is electricity transmission and connection of consumers to power grids The Group business is a nation-wide monopoly controlled and supported by the Russian Government. The Russian Government influences the Group’s business by state regulation of tariffs. The Group’s tariffs are set by the executive bodies of the Russian Federation constituent entities in charge of governmental tariff regulation and are controlled by the Federal Anti-Trust Service

On January 1, 2017, the guarantee supplier status was assigned to the Company in the Republic of Kalmykia with respect to the area of business of the former guarantee supplier, Southern Interregional Power Company JSC, by order of the Ministry of Energy of the Russian Federation dd December 23, 2016, No. 1400, Assigning of the Guarantee Supplier Status to the Territorial Grid Company. Revenues and operating costs from the said line of business are disclosed in Notes 7 and 8.

As of July 1, 2008, RAO UES of Russia OJSC terminated its existence as the sole legal entity and transferred the shares in the Company to the newly established Holding of Interregional Distribution Grid Company (Open Joint Stock Company).

To further develop and coordinate the management of the Russian power grid facilities, on November 22, 2012, the Russian President signed Decree No. 1567, Russian Grids Open Joint Stock Company. In furtherance of the Decree and in line with the resolution of the extraordinary General Shareholders’ Meeting held on March 23, 2012, IRGC Holding OJSC was officially renamed into Russian Grids Public Joint Stock Company (earlier Open Joint Stock Company) (hereinafter “Rosseti PJSC”).

As of June 30, 2017, the state owns 88.89% voting ordinary shares and 7.01% preferred shares in Rosseti PJSC (as of December 31, 2016, the state owns 88.75% voting ordinary shares and 7.01% preferred shares in Rosseti PJSC), which, in turns, owns 60.64% in the Company.

**Business conditions in the Russian Federation**

The Group operates in the Russian Federation. Accordingly, the national economy and financial markets with typical features of the developing market influence the Group’s business. The legal, tax and regulatory systems continue to develop, but are associated with the risk of ambiguous interpretation of their requirements, which are, moreover, susceptible to frequent changes, which, together with other legal and fiscal obstacles, creates additional problems for the enterprises doing business in the Russian Federation.

Events in Ukraine and subsequent adverse attitude of the global community have and may continue to have adverse impact on the Russian economy including more complicated raising of global financing, national currency depreciation and high inflation. These and other events, in case of their escalation, may have adverse impact on the conditions of doing business in the Russian Federation.

The Group management believes that it is taking the necessary efforts to maintain the economic stability in the Group in the current environment.

**2.** Fundamental principles of drafting financial statements**Conformity Statement**

These Consolidated intermediate condensed financial statements for the six months ended on June 30, 2017, was drafted under IFRS (IAS) 34, Intermediate Financial Statements. These Consolidated intermediate condensed financial statements should be read together with the consolidated financial statements for the year that ended on December 31, 2016, which was drafted according to the International Financial Reporting Standards (hereinafter “IFRS”).

**Basis for cost calculation**

Consolidated intermediate condensed financial statements were compiled according to IFRS based on the historic cost, except for the financial investments classified as available-for-sale financial assets measured at the fair value, and the fixed assets measured at the book value recorded in Rosseti’s IFRS consolidated financial statements, which is the conventional historic cost as of January 1, 2010, in the IFRS transition period.

**Functional currency and presentation currency**

Russian rubles are the national currency of the Russian Federation (RUB), and the same currency is the Company’s and its subsidiaries’ functional currency as wel as the currency in which these consolidated intermediate financial statements are submitted. All figures shown in Russian are rounded up to three decimal places.

**Going concern**

These Consolidated intermediate condensed financial statements were drafted on the going concerns basis.

As of June 30, 2017, the shortage of the working capital of the Group (mostly related to short-term loans and credits) amounted to RUB 474,829,000 (as of December 31, 2016: RUB 7,195,429).

The Group regularly monitors its liquidity. The Group monitors the timing of anticipated cash operating and financial cash flows and manages its current liquidity using open credit facilities (see Note 12). In the next 6 months 2017, the Group plans to raise a bond issue and long-term bank loans for RUB 7,672,000,000, which will be fully channeled towards refinancing of earlier raised loans.

To enhance the efficiency of the working capital management, the Group focuses on increasing collections of receivables, including doubtful. On a quarterly basis, the Group develops the schedules of efforts aimed at mitigating past-due debts for provided electricity transmission services and at settlement of differences and submits the schedules and their performance results to the Company’s Board of Directors for review. As part of the long-term program of development and reduction in receivables for provided electricity transmission services, the Company developed and had approved by the Board of Directors the schedule of repayment during 12 months 2017 of the past-due debts for provided electricity transmission services that existed as of January 1, 2017. The repayment schedule fulfillment is reviewed at the Company’s Board of Directors on a quarterly basis.

In the Management opinion, repayment of loans and credits as well as trade and other receivables will be covered with the operating or financial cash flows. Thus, the Management believes that there is no material uncertainty as to the Group’s ability to continue as the going concern.

**Use of estimates and professional judgments**

Drafting of IFRS consolidated intermediate condensed financial statements necessitates that the management should use professional judgments, assumptions and estimates that influence the way how the accounting policy provisions are applied and in which amounts the assets, liabilities, income and costs are recorded. Actual results may differ from these estimates

When drafting these consolidated intermediate condensed financial statements, the professional judgments of the management made in the course of application of the Group’s accounting policy and the main sources of uncertainty assessment remained the same as those applied to the consolidated financial statements for the year ended on December 31, 2016.

Some amounts in comparative information for the transition period were reclassified to make sure they are compatible with the data presentation procedure in the current period. Reclassification of comparative data did not influence the financial standing of the Group.

**3. Main accounting policy provisions**

The accounting policy provisions have been applied consistently in all reporting periods shown in these consolidated intermediate condensed financial statements and are uniform for companies of the Group.

**New standards and explanations not yet adopted for use**

A series of newly issued standards, changes to standards and explanations have not yet taken effect and have not been applied ahead of time by the Group when drafting these consolidated intermediate condensed financial statements. The following of the below standards may have potential impact on the Group’s operations:

* IFRS 16, Lease (takes effect with respect to the annual periods starting from January 2, 2019, or after that date). The Standard obliges tenants to recognize assets and liabilities for most lease agreements. Minor changes occurred for landlord as compared with the current rules established in IFRS (IAS) 17, Lease. Early introduction of the standards is allowed if a new revenues standard, IFRS 15, Revenues from Contracts with Buyers, have already been introduced or introduced simultaneously with IFRS 16.
* IFRS 9, Financial Instruments:Classification and Assessment (takes effect with respect to the annual periods starting from January 2, 2018, or after that date, early introduction is allowed). The standard introduces new requirements to financial instrument classification and assessment, depreciation accounting and hedging.
* IFRS 15, Revenues under Transactions with Buyers (takes effect with respect to the annual periods starting from January 2, 1, or after that date, early introduction is allowed).

The new standard introduces the fundamental principle, whereby the revenues should be recognized when the goods or services are transferred to the customer at the transaction price. Any discounts on the contractual price should be referred to individual elements of contracts with buyers. If the remuneration varies for any reason, the minimum amounts should be recognized, unless they are susceptible to the significant revision risk. The costs incurred to secure contracts with buyers should be capitalized and amortized during the entire period of deriving benefits from the contract.

The Group review the impact of these standards on its consolidated financial statements and plans to introduce them as soon as they take effect.

**4. Subsidiaries**

Consolidated intermediate condensed financial statements of the Group as of June 30, 2017, and December 31, 2016, includes the Company and its subsidiaries:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  | **Ownership stake, %** |
| **Subsidiary’s name** |  | **Core line of business** |  | June 30, 2017 |  | **December 31, 2016** |  | **January 1, 2016** |
| A.A. Grechko Agricultural Enterprise, OJSC  |  | Agriculture |  | **–** |  | **–** |  | 100 |
| Sokolovskoye Agricultural Enterprise, OJSC |  | Agriculture |  | 100 |  | 100 |  | 100 |
| **Energetik Holiday Home JSC** |  | Health improvement |  | 100 |  | 100 |  | 100 |
| Energy Service Company of the South JSC |  | Repairs and maintenance |  | 100 |  | 100 |  | 100 |

**5. Fair valuation**

Certain provisions of the Group’s accounting policy and some disclosures necessitate the assessment of the fair value of both financial and non-financial assets and liabilities.

When drafting these consolidated intermediate condensed financial statements, the same methods to determine the fair value were applied as when drafting the consolidated financial statements for the year ended on December 31, 2016.

**6. Operating segments**

The Group designated four reporting segments: below mentioned branches of the Company, which represent strategic business units for the Group. These strategic business units provide comparative services of electricity transmission and technological connection to power grids but are managed separately. Internal management reports for each of the strategic business units are reviewed by the Management Board, the responsible authority in the Group for making operating decisions.

The Other category includes transactions of the Company’s subsidiaries and Kubanenergo branch. These transactions do not conform to the quantitative criteria for distinguishing them as separate reporting segments either for three and six months ended on June 30, 2017, or for three and six months ended on June 30, 2016. The non-allocated indicators include the indicators of the Company’s administration, which is not an operating segment according to IFRS 8.

Below is provided information on performance of each of the reporting segments. Financial results of business are estimated based on pre-tax profit of the segment recorded in the internal management reports reviewed by the Management Board.

Reports by segments are based on the information compiled according to the Russian accounting principles, which differs from information in IFRS consolidated financial statements. Reconciliation of indicators submitted to the Management Board for review with similar indicators of these consolidated financial statements includes reclassifications and adjustments required for aligning the financial statements with IFRS.

|  |
| --- |
| Information on reporting segments for three months ended on June 30, 2017: |
|  | **Electricity transmission** |
|  | **Astrakhanenergo** |  | Volgogradenergo  |  | **Kalmenergo** |  | **Rostovenergo** |  | **Other** |  | **Total** |
| **Reporting segment revenues** |  |  |  |  |  |  |  |  |  |  |  |
| Electricity transmission | 1 085 027 |  | 2 350 339 |  | 143 388 |  | 3 768 487 |  | **–** |  | 7 347 241 |
| Technological connection to power grids | 32 327 |  | 3 277 |  | 124 |  | 158 470 |  | **–** |  | 194 198 |
| Electricity and capacity sale | **–** |  | - |  | 164 93 1 |  | **–** |  | **–** |  | 164 931 |
| Other revenues  | 11 184 |  | 9 285 |  | 4 622 |  | 238 078 |  | 33 506 |  | 296 675 |
| Revenues from sales between segments | **–** |  | **–** |  |  |  | 116 |  | **–** |  | 116 |
| **Total reporting segment revenues** | **1 128 538** |  | **2 362 901** |  | **313 065** |  | **4 165 151** |  | **33 506** |  | **8 003 161** |
| **Pre-tax (loss)/ profit of the reporting segment** | **(211 705)** |  | **794 417** |  | **(507 215)** |  | **37 827** |  | **(4 905)** |  | **108 419** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Information on reporting segments for three months ended on June 30, 2016: |
|  | **Electricity transmission** |
|  | **Astrakhanenergo** |  | Volgogradenergo  |  | **Kalmenergo** |  | **Rostovenergo** |  | **Other** |  | **Total** |
| Reporting segment revenues |  |  |  |  |  |  |  |  |  |  |  |
| Electricity transmission | 1 004 112 |  | 2 331 049 |  | 193 576 |  | 3 445 459 |  | **–** |  | 6 974 196 |
| Technological connection to power grids | 5 903 |  | 7 848 |  | 46. |  | 33 847 |  | **–** |  | 47 644 |
| Other revenues  | 8510 |  | 11 263 |  | 4 500 |  | 15 447 |  | 37 038 |  | 76 788 |
| Revenues from sales between segments | **–** |  | **–** |  | **–** |  | 28 |  | **–** |  | 28 |
| **Total reporting segment revenues** | **1 018 525** |  | **2 350 160** |  | **198 122** |  | **3 494 811** |  | **37 038** |  | **7 098 656** |
| **Pre-tax (loss)/ profit of the reporting segment** | **(653 099)** |  | **221 268** |  | **(619 918)** |  | **(37 178)** |  | **(8 901)** |  | **(1 097 828)** |

|  |
| --- |
| Information on reporting segments for six months ended on June 30, 2017: |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Electricity transmission** |
|  | **Astrakhanenergo** |  | Volgogradenergo  |  | **Kalmenergo** |  | **Rostovenergo** |  | **Other** |  | **Total** |
| **Reporting segment revenues** |  |  |  |  |  |  |  |  |  |  |  |
| **Electricity transmission** | **2 296 669** |  | **4 949 142** |  | **303 450** |  | **8 137 050** |  | **–** |  | **15 686 311** |
| Technological connection to power grids | 34 499 |  | 6 222 |  | 156 |  | 178 553 |  | **–** |  | 219 430 |
| Electricity and capacity sale | **–** |  | **–** |  | 383 517 |  | **–** |  | **–** |  | 383 517 |
| Other revenues  | 15 733 |  | 16 052 |  | 8 900 |  | 255 631 |  | 53 160 |  | 349 476 |
| Revenues from sales between segments | **–** |  | **–** |  | **–** |  | 233 |  | **–** |  | 233 |
| **Total reporting segment revenues** | **2 346 901** |  | **4 971 416** |  | **696 023** |  | **8 571 467** |  | **53 160** |  | **16 638 967** |
| **Pre-tax (loss)/ profit of the reporting segment** | **(500 916)** |  | **1 172 348** |  | **(782 297)** |  | **148 823** |  | **(15818)** |  | **22 140** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Information on reporting segments for six months ended on June 30, 2017: |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Electricity transmission** |
|  | **Astrakhanenergo** |  | Volgogradenergo  |  | **Kalmenergo** |  | **Rostovenergo** |  | **Other** |  | **Total** |
| **Reporting segment revenues** |  |  |  |  |  |  |  |  |  |  |  |
| Electricity transmission | 2 154 198 |  | 4 865 086 |  | 422 305 |  | 7 421 505 |  | **–** |  | 14 863 094 |
| Technological connection to power grids | 14 147 |  | 11 509 |  | 94 |  | 50513 |  | **–** |  | 76 263 |
| Other revenues  | 15 364 |  | 20 914 |  | 8 490 |  | 32 275 |  | 54 041 |  | 131 084 |
| Revenues from sales between segments | **–** |  | **–** |  | **–** |  | 56 |  | **–** |  | 56 |
| **Total reporting segment revenues** | **2 183 709** |  | **4 897 509** |  | **430 889** |  | **7 504 349** |  | **54 041** |  | **15 070 497** |
| **Pre-tax (loss)/ profit of the reporting segment** | **(912 050)** |  | **1 110 193** |  | **(885 748)** |  | **(40 975)** |  | **(19 034)** |  | **(747 614)** |

|  |
| --- |
| Information on reporting segments as of June 30, 2017: |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Electricity transmission** |
|  | **Astrakhanenergo** |  | Volgogradenergo  |  | **Kalmenergo** |  | **Rostovenergo** |  | **Other** |  | **Total** |
| **Reporting segment assets** | 6 624 786 |  | 12 934 172 |  | 3 083 476 |  | 19 455 078 |  | 657 591 |  | 42 755 103 |
| *including fixed assets* | 4 693 229 |  | 6 223 867 |  | 2 585 699 |  | 15257 161 |  | 239 122 |  | 28 999 078 |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Information on reporting segments as of December 31, 2016: |
|  | **Electricity transmission** |
|  | **Astrakhanenergo** |  | Volgogradenergo  |  | **Kalmenergo** |  | **Rostovenergo** |  | **Other** |  | **Total** |
| **Reporting segment assets** | 7 283 542 |  | 12 096 112 |  | 3 164 754 |  | 19 761 843 |  | 694 443 |  | 43 000 694 |
| *including fixed assets* | 4 702 913 |  | 6 253 951 |  | 2 649 724 |  | 14 682 452 |  | 235 952 |  | 28 524 992 |

**Reconciliation linking the data in reporting segments with IFRS data**

Reconciliation linking pre-tax profit (loss) indicators in reporting segments

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For three months that ended on June 30** |  | **For six months ended on June 30** |
|  | **2017** |  | **2016** |  | **2017** |  | **2016** |
| **Pre-tax profit / (loss) of reporting segments** | **108 419** |  | **(1 097 828)** |  | **22 140** |  | **(747 614)** |
| Adjustment of the provision for receivables impairment  | (14 045) |  | **–** |  | (225 634) |  | **–** |
| Adjustments of residual value of fixed assets | 134819 |  | 102 254 |  | 269 786 |  | 192 764 |
| Recognition of the employee’s remuneration payable | (360) |  | (1 277) |  | (2 838) |  | (4 095) |
| Financial instrument discounting | 150 |  | 175 |  | 194 |  | 1 142 |
| Adjustment of prepaid expenses | 1 784 |  | 10 768 |  | 5 799 |  | 25 081 |
| Other adjustments | 147 507 |  | (4 957) |  | 55 986 |  | (7 814) |
| Other unallocated amounts | 134 |  | **–** |  | 257 |  | **–** |
| **Consolidated pre-tax profit/ (loss)** | **378 408** |  | **(990 865)** |  | **125 690** |  | **(540 536)** |

Revenues from transactions with enterprises affiliated with the state is provided by all of the Group’s segments and disclosed in Note 17.

For three and six months ended on June 3, 2017, the Group had two buyers: sales companies in two Russian regions with individual sales volumes exceeding 10% of the Group’s total revenues. Revenues for three and six months ended on June 30, 2017, according to the buyer’s data, came to RUB 943,819,000 and RUB 2,015,329,000, respectively (Astrakhanenergo) and RUG 2,089,88,000 and RUB 4,576,242,000, respectively (Rostovenergo).

For three and six months ended on June 3, 2016, the Group had two buyers: sales companies in two Russian regions with individual sales volumes exceeding 10% of the Group’s total revenues. Revenues for three and six months ended on June 30, 2016, according to the buyer’s data, came to RUB 892,877,000 and RUB 1,871,373,000, respectively (Astrakhanenergo) and RUG 1,927,908,000 and RUB 4,141,249,000, respectively (Rostovenergo).

**7. Revenues**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For three months that ended on June 30** |  | **For six months ended on June 30** |
|  | **2017** |  | **2016** |  | **2017** |  | **2016** |
| Electricity transmission | 7 347 241 |  | 6 974 196 |  | 15 686 311 |  | 14 863 094 |
| Electricity and capacity sale | 364 931 |  | **–** |  | 383 517 |  | **–** |
| Technological connection to power grids | 194 198 |  | 47 644 |  | 219430 |  | 76 263 |
| Other revenues  | 297 437 |  | 76 826 |  | 351 001 |  | 131 278 |
|  | **8,003,807** |  | **7,098,666** |  | **16 640 259** |  | **15 070 635** |

**8. Income and expenses**

**(а) Operating costs**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For three months ended on June 30** |  | **For six months ended on June 30** |
|  | **2017** |  | **2016** |  | **2017** |  | **2016** |
| **Production work and services, including** | **2 463 429** |  | **2 064 736** |  | **4 863 250** |  | **4 192 404** |
| *Electricity transmission services* | *2 392 966* |  | *2 012 129* |  | *4 768 590* |  | *4 116 834* |
| *Repairs and maintenance services* | *51 548* |  | *34 516* |  | *67191* |  | *49 087* |
| *Other production work and services* | *18 915* |  | *18 091* |  | *27 469* |  | *26 483* |
| Employees’ remuneration costs | 1 835 490 |  | 1 750 674 |  | 3 616 960 |  | 3 477 062 |
| **Tangible costs, including** | **1 352 226** |  | **1 209 395** |  | **4 044 775** |  | **3 685 252** |
| *Electricity for making up for technological losses* | *976 803* |  | *929 970* |  | *3 321 918* |  | *3 163 802* |
| *Purchased electricity and thermal energy for own needs* | *32 003* |  | *26 549* |  | *140 104* |  | 124 790 |
| *Purchased electricity and capacity to be sold* | *61 111* |  | ***–*** |  | *149 169* |  | ***–*** |
| *Other tangible costs* | *282 309* |  | *252 876* |  | *433 584* |  | *396 660* |
| Depreciation | 520 091 |  | 555 098 |  | 1 045 626 |  | 1 125 461 |
| **Other third parties’ services, including** | **178 327** |  | **140 790** |  | **374 711** |  | **297 114** |
| *Advisory, legal and audit services* | *5 760* |  | *4 230* |  | *50 626* |  | *6 588* |
| *Management services* | 33 *275* |  | *33 275* |  | *66 549* |  | *66 549* |
| *Costs related to property maintenance* | *31846* |  | *18 682* |  | *62 646* |  | *60 287* |
| *Safeguarding* | *23 697* |  | *21 361* |  | *46 229* |  | *42 128* |
| *Communications services* | *19 497* |  | *16 841* |  | *38 264* |  | *36 092* |
| *Transportation services* | *12 844* |  | *3 759* |  | *22 667* |  | *7 039* |
| *Software and support services* | *8181* |  | *6 957* |  | *15 941* |  | *13 067* |
| *Other third parties’ services*  | *43 227* |  | *35 685* |  | *71 789* |  | *65 364* |
| Provisions | ***–*** |  | 660 514 |  | ***–*** |  | 823 764 |
| Penalties, fines, forfeits submitted to the Company for violation of contractual conditions | 394 183 |  | 365 182 |  | 802 540 |  | 478 805 |
| Taxes and charges, except for income tax | 107 341 |  | 96 659 |  | 209 994 |  | 190 756 |
| Lease | 26 272 |  | 51 926 |  | 48 890 |  | 102 174 |
| Travel expenses | 35 268 |  | 25 451 |  | 52 924 |  | 40 659 |
| Insurance | 15 050 |  | 14 954 |  | 29 957 |  | 30 П8 |
| Loss from withdrawal of fixed assets | 2 170 |  | 1 474 |  | 2 182 |  | 2 647 |
| Other costs | 281 377 |  | 414 329 |  | 955 433 |  | 612 699 |
|  | **7 211 224** |  | **7 351 182** |  | **16 047 242** |  | **15 058 915** |

For three and six months ended on June 30, 2017, the following was included into penalties, fines and forfeits for violation of contractual conditions: costs under contracts with FSK UES PJSC for RUB 108,998,000 and RUB 245,329,000; Astrakhan Energy Sales Company PJSC, RUB 153,064,000, and RUB 266,029,000, TNS Energy Rostov-on-Don PJSC, RUB 39,317,000, and RUB 150,395,000, Energy JSC, RUB 51,000,000, and RUB 75,176,000, resprectively (for three and six months ended on June 30, 2016: RUB 230,962,000 and RUB 244,722,000, RUB 80,028,000 and RUB 133,852,000; RUB 0 and RUB 0, RUB 0 and RUB 31,111,000, respectively), recognized in the court judgment.

For three and six months ended on June 30, 2017, other costs include losses of previous years in the amount of RUB 272,473,000 and RUB 927,031,000, respectively (for three and six months ended on June 30, 2016: 385 969 тыс. руб. и 578 923 тыс. руб.), в том числе в соответствии с решениями суда и урегулированием разногласий с энергосбытовыми компаниями.

**(б) Net other income/ (costs)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For three months ended on June 30** |  | **For six months ended on June 30** |
|  | **2017** |  | **2016** |  | **2017** |  | **2016** |
| Penalties and fine | 549 400 |  | 503 890 |  | 657 514 |  | 569 373 |
| (Accrual)/ reinstatement of the provision for receivables impairment  | (338 791) |  | (593 712) |  | 95 038 |  | 133 104 |
| Income from reimbursement of costs at the court judgment | 40 367 |  | **–** |  | 40 367 |  | **–** |
| Provisions | 4 722 |  | **–** |  | 77 550 |  | **–** |
| Reimbursements under loss events | 13 483 |  | 156 |  | 22 920 |  | 14 675 |
| Detected non-contractual electricity consumption | 5 225 |  | 9 673 |  | 7 647 |  | 17 403 |
| Write-off of trade and other payables | 805 |  | 1 542 |  | 1 150 |  | 2 981 |
| Donated assets, including surpluses | 655 |  | 1 365 |  | 1 311 |  | 2 269 |
| Governmental subsidies | 94 |  | 95 |  | 94 |  | 1 844 |
|  | **275 960** |  | **(76 991)** |  | **903 591** |  | **741 649** |

For three and six months ended on June 30, 2017, penalties and fines included the income recognized at the court judgment under contracts with Astrakhan Power Sales Company PJSC (RUB 140,544,000 and RUB 156,463,000), with TNS Energo Rostov-on-Don PJSC (RUB 5,656,000 and RUB 52,565,000), Volgogradenergosbyt PJSC (RUB 333,414,000 and RUB 333,414,000, respectively (for three and six months ended on June 30, 2016: RUB 15,548,000 and RUB 63,888,000, RUB 0 and RUB 0, RUB 371,531,000 and RUB 371,531,000, respectively).

**9. Fixed assets**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Land plots and buildings** |  | **Power grids** |  | **Transformer substations** |  | **Other** |  | **Construction-in-progress** |  | **Total** |
| *Value/ conventional initial value* |  |  |  |  |  |  |  |  |  |  |  |
| **Balance as of January 1, 2016** | **3 094 292** |  | **18 962 044** |  | **12 193 863** |  | **6 352 134** |  | **2 443 868** |  | **43 046 201** |
| Reclassification between groups | **–** |  | 58 862 |  | (58 923) |  | 61 |  | **–** |  | **–** |
| Receipts | **–** |  | 711 |  | 10 |  | 15 498 |  | 389 916 |  | 406 135 |
| Commissioning | 8716 |  | 95 463 |  | 56 436 |  | 48 001 |  | (208 616) |  | **–** |
| Withrawals | (500) |  | (5 014) |  | (1 019) |  | (15 711) |  | (9 731) |  | (31 975) |
| **Balance as of June 30, 2016** | **3 102 508** |  | **19 112 066** |  | **12 190 367** |  | **6 399 983** |  | **2 615 437** |  | **43 420 361** |
| **Balance as of January 1, 2017** | **3 145 751** |  | **19 851 743** |  | **12 414 980** |  | **6 393 063** |  | **3 327 099** |  | **45 132 636** |
| Reclassification between groups | (3 785) |  | 90 869 |  | (366 048) |  | 278 964 |  | **–** |  | **–** |
| Receipts | 354 |  | **–** |  | **–** |  | 20 554 |  | 1 529 297 |  | 1 550 205 |
| Commissioning | 297 661 |  | 461 037 |  | 516519 |  | 170 865 |  | (1 446 082) |  |  |
| Withrawals | (3111) |  | (11 214) |  | (10333) |  | (9 549) |  | (11 111) |  | (45 318) |
| **Balance as of June 30, 2017** | **3 436 870** |  | **20 392 435** |  | **12 555 118** |  | **6 853 897** |  | **3 399 203** |  | **46 637 523** |

**9. Fixed assets (continued)**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Land plots and buildings** |  | **Power grids** |  | **Transformer substations** |  | **Other** |  | **Construction-in-progress** |  | **Total** |
| *Depreciation and depreciation loss* |  |  |  |  |  |  |  |  |  |  |  |
| **Balance as of January 1, 2016** | **(1 298 555)** |  | **(10 686 082)** |  | **(6 030 406)** |  | **(4 088 531)** |  | **(12 862)** |  | **(22 116 436)** |
| Reclassification between groups | **–** |  | **–** |  | 5 |  | (5) |  | **–** |  | **–** |
| Accrued for the period | (65 154) |  | (469 305) |  | (336 580) |  | (247 156) |  | **–** |  | (1 118 195) |
| Introduction and composition of fixed assets | (40) |  | (4 598) |  | (1 190) |  | **–** |  | 5 828 |  | **–** |
| Withrawals | 440 |  | 4 424 |  | 628 |  | 9 261 |  | **–** |  | 14 753 |
| **Balance as of June 30, 2016** | **(1 363 309)** |  | **(11 155 561)** |  | **(6 367 543)** |  | **(4 326 431)** |  | **(7 034)** |  | **(23 219 878)** |
| **Balance as of January 1, 2017** | **(1 491 355)** |  | **(11 869 132)** |  | **(6 758 749)** |  | **(4 428 054)** |  | **(9 563)** |  | **(24 556 853)** |
| Reclassification between groups | (39 916) |  | (29 772) |  | 335 677 |  | (265 989) |  | **–** |  | **–** |
| Accrued for the period | (62 372) |  | (438 270) |  | (320 748) |  | (206 696) |  | **–** |  | (1 028 086) |
| Introduction and composition of fixed assets | **–** |  | (22) |  | (145) |  | **–** |  | 167 |  | **–** |
| Withrawals | 2 999 |  | 7 536 |  | 6 680 |  | 9 166 |  | 37 |  | 26 418 |
| **Balance as of June 30, 2017** | **(1 590 644)** |  | **(12 329 660)** |  | **(6 737 285)** |  | **(4 891 573)** |  | **(9 359)** |  | **(25 558 521)** |
| *Residual value* |  |  |  |  |  |  |  |  |  |  |  |
| **Balance as of January 1, 2016** | **1 795 737** |  | **8 275 962** |  | **6 163 457** |  | **2 263 603** |  | **2 431 006** |  | **20 929 765** |
| **Balance as of June 30, 2016** | **1 739 199** |  | **7 956 505** |  | **5 822 824** |  | **2 073 552** |  | **2 608 403** |  | **20 200 483** |
| **Balance as of January 1, 2017** | **1 654 396** |  | **7 982 611** |  | **5 656 231** |  | **1 965 009** |  | **3 317 536** |  | **20 575 783** |
| **Balance as of June 30, 2017** | **1 846 226** |  | **8 062 775** |  | **5 817 833** |  | **1 962 324** |  | **3 389 844** |  | **21 079 002** |

**10.** Equity **Share capital**

As of June 30, 2017, registered and issued share capital consists of 61,178,139,417 ordinary shares (as of December 31, 2016: 49,811,096,064 ordinary shares). Par value of the share is RUB 0.1

**Additional issue of securities**

On June 6, 2016, the annual General Meeting of the Company’s Shareholders approved the resolution to increase the Company’s share capital by issue of additional 11615 110 154 ordinary registered uncertified shares with the par value of RUB 0.1 per share. The share issue was registered by the Bank of Russia on August 4, 2016. By December 22, 2016, shareholders were able to exercise the pre-emptive right to purchase the Company’s shares. As of December 31, 2016, as part of exercising the said right, the shareholders contributed RUB 143,909,000 to the Company’s share capital. Before state registration of changes to the Company’s share capital, RUB 143,909,000 contribution was recognized as the provision for share issue direction within capital as of December 31, 2016. Upon expiry of the effective period of the right for pre-emptive purchase of shares in the Company, as part of the subscription open up to March 31, 2017, RUB 992,795,000 was contributed to the Company’s share capital. Changes in the Company’s share capital were registered on May 10, 2017, in which connection the Company’s share capital increased by RUB 1,136,704,000, to RUB 6,117,814,000 (as of December 31, 2016: RUB 4,981,100).

On April 7, 2017, the extraordinary General Meeting of the Company’s Shareholders approved the resolution to increase the share capital by placing additional 13,015,185,446 ordinary registered uncertified shares with the par value of RUB 0.1 per share, for the total amount of RUB 1,301,519,000. The share issue was registered by the Bank of Russian on June 1, 2017. By July 20, 2017, inclusively, shareholders were able to exercise the pre-emptive right to purchase the Company’s shares. As of June 30, 2017, as part of exercising this right, the parent company contributed RUB 786,025,000 to the Company’s share capital. Before the Registrar credited the shares purchased by the parent company to its personal account, RUB 786,025,000 contribution had been recorded by the Group within trade and other payables as of June 30, 2017.

**Retained profit and dividends**

The Company’s RAS financial statements forms the basis for profit allocation and other payments. Due to differences between RAS and IFRS accounting rules, the Company’s profit in financial statements may be different from the values shown in IFRS consolidated financial statements.

According to Russian law, the Company’s provisions available for allocation are limited to the unallocated profit recorded in the Company’s RAS financial statements.

Annual General Meeting of the Company’s Shareholders held on June 13, 2017, resolved not to pay dividends for 2016.

The Annual General Meeting of the Company’s Shareholders held on June 6, 2016, resolved to pay RUB 142,096,000 dividends for 2015. (RUB 0.002852693 per ordinary share in the Company). As of December 31, 2016, RUB 140, 378,000 dividends were paid. During six months ended on June 30, 2017, the Company paid RUB 7,000 dividends; RUB 3,000 dividends declared in the previous periods were refunded to the Registrar. As of June 30, 2017, RUB 1,808,000 dividends payable were recorded in the Consolidated Report on the financial standing of the Group within trade and other payables (as of December 31, 2016: RUB 1,812,000).

**11. Earnings per share**

The profit-per-share is calculated based on the net profit for the period and the number of ordinary shares in circulation. The Company does not have potential ordinary shares with diluting effect; accordingly, the diluted profit per share is equal to the base profit.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For three months ended on June 30** |  | **For six months that ended on June 30** |
|  | **2017** |  | **2016** |  | **2017** |  | **2016** |
| Weighted average number of ordinary shares for the period (‘000 pcs) | 61 178 139 |  | 49 811 096 |  | 58 034 288 |  | 49 811 096 |
| Profit/ (loss) due to the Company’s owners | 247 994 |  | (594 561) |  | (117556) |  | (278 061) |
| **Profit/ (loss) per share (RUB) base and diluted** | **0,004** |  | **(0,012)** |  | **(0,002)** |  | **(0,006)** |

**12. Credits and loans**

This Note contains information on the contractual conditions of raising by the Group of credits and loans.

|  |  |  |  |
| --- | --- | --- | --- |
|  | June 30, 2017 |  | **December 31, 2016** |
| **Long-term credits and loans** |  |  |  |
| Insecure bank credits | 22 682 022 |  | 17 882 022 |
| Issued unsecured bonds | **–** |  | 5 000 000 |
|  | 22 682 022 |  | 22 882 022 |
| *Minus current portion of long-term credits and loans* | (2 453 588) |  | (5 650 000) |
|  | **20 228 434** |  | **17 232 022** |
|  |  |  |  |
| **Short-term loans and current portion of long-term loans and credits** |  |  |  |
| Insecure bank credits | 1 478 109 |  | 1 528 109 |
| Interest on bank credits | 4 743 |  | 10312 |
| Insecure third parties’ loans | 6 000 |  | **–** |
| Interest on issued bonds | **–** |  | 35 140 |
| **Current portion of long-term loans and credits** | 2 453 588 |  | 5 650 000 |
|  | **3 942 440** |  | **7 223 561** |

Credit and Loan repayment conditions and schedule:

***Long-term credits and loans***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Effective interest rate** |  |  |  | June 30, 2017 |  | **December 31, 2016** |
| **Lender’s name** | **June 30 2017** |  | **December 31 2016** |  | **Year of repayment** |  | **Par value** |  | **Book value** |  | **Par value** |  | **Book value** |
| *Insecure bank credits* |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gazprombank JSC\* | Russian Central Bank key rate +1% |  | 11,00% |  | 2019 |  | 1 842 322 |  | 1 842 322 |  | 1 342 322 |  | 1 342 322 |
| Gazprombank JSC\* | 10,80% |  | 10,80% |  | 2019-2020 |  | 3 100 000 |  | 3 100 000 |  | 1 500 000 |  | 1 500 000 |
| Sberbank PJSC\* | 9,95% |  | 12,50% |  | 2018 |  | 2 804 700 |  | 2 804 700 |  | 2 804 700 |  | 2 804 700 |
| {0>Sberbank PJSC\*<0} | 9,95 - 10,41% |  | 11.25 - 12,45% |  | 2018-2019 |  | 4 131 412 |  | 4 131 412 |  | 6 585 000 |  | 6 585 000 |
| Rossiya JSB JSC | 10,90-11% |  | **–** |  | 2 020 |  | 6 350 000 |  | 6 350 000 |  | **–** |  | **–** |
| VBRR Bank JSC | 10,74% |  | **–** |  | 2 020 |  | 2 000 000 |  | 2 000 000 |  | **–** |  | **–** |
|  |  |  |  |  |  |  | **20 228 434** |  | **20 228 434** |  | **12 232 022** |  | **12 232 022** |
| *Bond issues* |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bond issue\* | - |  | 13,50% |  |  |  | **–** |  | **–** |  | 5 000 000 |  | 5 000 000 |
|  |  |  |  |  |  |  | **–** |  | **–** |  | **5 000 000** |  | **5 000 000** |
|  |  |  |  |  |  |  | **20 228 434** |  | **20 228 434** |  | **17 232 022** |  | **17 232 022** |

**Short-term credits and loans and current portion of long-term loans and credits**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Effective interest rate** |  |  |  | June 30, 2017 |  | **December 31, 2016** |
| **Lender’s name** | **June 30 2017** |  | **December 31 2016** |  | **Year of repayment** |  | **Par value** |  | **Book value** |  | **Par value** |  | **Book value** |
| *Insecure bank credits*{0>Sberbank PJSC\*<0} | 11,56% |  | 11,81% |  | 2017 |  | 1 478 109 |  | 1 478 109 |  | 1 528 109 |  | 1 528 109 |
|  |  |  |  |  |  |  | **1 478 109** |  | **1 478 109** |  | **1 528 109** |  | **1 528 109** |
| Insecure third parties’ loans Individual entrepreneur Andrey Vladimirovich Nechaenko | 0% |  |  |  | 2017 |  | 6 000 |  | 6 000 |  | **–** |  | **–** |
|  |  |  |  |  |  |  | **6 000** |  | **6 000** |  | **–** |  | **–** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Interest on bond issue\*\** |  |  |  |  |  |  | **–** |  | **–** |  | 35 140 |  | 35 140 |
| *Interest on insecure ban loans* |  |  |  |  |  |  | 4 743 |  | 4 743 |  | 10312 |  | 10312 |
|  |  |  |  |  |  |  | **4 743** |  | **4 743** |  | **45 452** |  | **45 452** |
| **Current portion of long-term loans and credits** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| {0>Sberbank PJSC\*<0} | 9,95% |  | 9,39- 11,85% |  | 2017-2018 |  | 2 453 588 |  | 2 453 588 |  | 5 650 000 |  | 5 650 000 |
|  |  |  |  |  |  |  | **2 453 588** |  | **2 453 588** |  | **5 650 000** |  | **5 650 000** |
|  |  |  |  |  |  |  | **3 942 440** |  | **3 942 440** |  | **7 223 561** |  | **7 223 561** |

\* Credits from banks affiliated with the state

\*\* Bond issue repurchased by the parent company - All credits and loans of the Group are denominated in Russian rubles

The Company has certain, limited liabilities related to the bank loans As of June 30, 2017, and December 31, 2016, the Company complied with all limiting circumstances.

As of June 30, 2017, and December 31, 2016, there are no bank credits secured the fixed assets pledge.

**13. Provisions**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For six months ended on** June 30, 2017 |  | **For six months ended on** June 30, 2016 |
| Start-of-period balance | 1 020 375 |  | 1 935 907 |
| Provisions accrued for the period | 71 568 |  | 1 235 218 |
| Change in assessments for the period | (149 118) |  | (411 454) |
| Use of the provision for the period | (598 509) |  | (775 285) |
| End-of-year balance | 344 316 |  | 1 984 386 |

Provisions relate to legal proceedings under claims against the Group and unsettled differences with sales companies involving electricity purchase for making up for technological losses. The Group recognized the provision for legal proceedings and unsettled differences if the Group believes the economic resources are likely to flow out as a result of dispute settlement

**14. Financial risk management**

During the reporting period, the Company was exposed to the same financial risks as existed in the year ended on December 31, 2016, and applied the same approach to the financial risk management as in the year ended on December 31, 2016.

The Group management believes that the fair market value of financial assets and financial liabilities as of June 30, 2017, and as of December 31, 2016, is close to their book value.

**15. Capital liabilities**

As of June 30, 2017, the amount of total liabilities under contracts involving purchase and construction of fixed assets is 2,206,009 rubles, net of VAT (December 31, 2016: RUB 3,258,096).

**16. Contingent liabilities**

***Insurance***

The Company has taken out comprehensive insurance protection of its production facilities against losses caused by business interruption, obligations to third parties in connection with the damage to real estate or environment as a result of accidents or the Company’s operations.

***Legal proceedings***

The Group acted as a party in a number of legal proceedings initiated in the course of its business. In the Company’s opinion, there are no legal proceedings against the Group that could have had adverse effect on the operating results, the financial standing or cash flows of the Group, and which are not recorded in the consolidated financial statements of the Group or the notes to them.

***Contingent tax liabilities***

The tax system of the Russian Federation still develops and is described by frequent changes in laws, official explanations and court judgments, which are sometimes opaquely stated and contradictory, which allows their ambiguous interpretation by different tax authorities. Several regulatory authorities entitled to impose large penalties and files are involved in audits and investigations into the correct tax assessment only. The correct tax assessment in the reporting period can be verified during three subsequent calendar years; however, this period may be extended in certain circumstances. In recent years, the Russian practice was that tax authorities held a more inflexible position in interpretation and requirements to compliance with tax law.

These circumstances may result in much higher tax risks in the Russian Federation than in other countries. The Group’s management, proceeding from its understanding of Russian tax law, official explanations, and court judgments believes that tax liabilities are recorded adequately. Nonetheless, the interpretation of these provisions by the respective authorities can be different, and if they are able to provide their standpoint is legitimate, this may have significant implications for these consolidated intermediate condensed financial statements.

***Environmental liabilities***

The Company and its predecessors carried out electricity transmission in the Russian Federation for many years. The Russian environmental law is undergoing a reform, and the respective efforts taken by governmental authorities are constantly revised. The Company regularly assesses its environmental liabilities

The potential liabilities that may result from changes in the existing laws and settlement of civil disputes are estimated as the legal changes take effect. Considering the situation with fulfillment of regulations and laws of the Russian Federation, the Group Management believes that the Group does not have any material environmental liabilities.

***Guarantees***

As of June 30, 2017 and December 31, 2016, the Group does not have any guarantees.

**17. Related party transactions**

***Control relations***

As of June 30, 2017, and December 31, 2016, the Company was controlled by Rosseti PJSC The ultimate controlling party is the state represented by the Government of the Russian Federation that holds a majority stake in Rosseti PJSC.

The Group’s related party transactions are shown below:

**Revenues and other income**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **For three months ended on June 30** |  | **For six months ended on June 30** |  | **Book value** |
|  | **2017** |  | **2016** |  | **2017** |  | **2016** |  | June 30, 2017 |  | **December 31, 2016** |
| **Parent company** |  |  |  |  |  |  |  |  |  |  |  |
| Lease | 410 |  | 410 |  | 820 |  | 820 |  | **–** |  | **–** |
| Other revenues and income | 21 388 |  | 85 |  | 31 314 |  | 85 |  | 7 658 |  | 346 251 |
| **Enterprises under common control of the parent company** |  |  |  |  |  |  |  |  |  |  |
| Revenues from electricity transmission | 93 982 |  | 101 847 |  | 200 361 |  | 216287 |  | 96 332 |  | 86 979 |
| Lease | 2 156 |  | 6316 |  | 4 293 |  | 12 630 |  | 17 275 |  | 36 462 |
| Revenues from other services | 233 |  | 88 |  | 320 |  | 175 |  | 34 295 |  | 59 657 |
|  | **118 169** |  | **108 746** |  | **237 108** |  | **229 997** |  | **155 560** |  | **529 349** |

**Costs**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **For three months ended on June 30** |  | **For six months ended on June 30** |  | **Book value** |
|  | **2017** |  | **2016** |  | **2017** |  | **2016** |  | June 30, 2017 |  | **December 31, 2016** |
| **Parent company** |  |  |  |  |  |  |  |  |  |  |  |
| Management services | 33 275 |  | 33 275 |  | 66 549 |  | 66 549 |  | 20 941 |  | 7 853 |
| Technical supervision | 7 133 |  | 7 134 |  | 14 268 |  | 14 268 |  | 4 328 |  | 1 522 |
| Bond issue and interest | 131 150 |  | 162 143 |  | 292 176 |  | 324 411 |  |  |  | 5 035 140 |
| Other services | 1 343 |  | **–** |  | 2 580 |  | **–** |  | **–** |  | **–** |
| **Enterprises under common control of the parent company** |  |  |  |  |  |  |  |  |  |  |
| Electricity transmission | 1 745 725 |  | 1 585 477 |  | 3 523 571 |  | 3 186 786 |  | 7 493 466 |  | 6 235 184 |
| Electricity purchased to make up for losses | 46 097 |  | 36 570 |  | 116810 |  | 101 761 |  | **–** |  | **–** |
| Lease | 1 376 |  | 1 001 |  | 2 745 |  | 2 669 |  | 277 |  | 277 |
| Other | 201 245 |  | 236 973 |  | 227 228 |  | 259 087 |  | 727 556 |  | 902 907 |
|  | **2 167 344** |  | **2 062 573** |  | **4 245 927** |  | **3 955 531** |  | **8 246 568** |  | **12 182 883** |

As of June 30, 2017, the balance of prepayments given to related parties came to RUB 20,260,000 and prepayments received from related parties, RUB 0,000 (as of December 31, 2016: RUB 20,501,000 and RUB 29,293,000, respectively).

In 2016, the Company resolved to pay dividends for 2015, with the dividends payable to the parent company amounting to RUB 73,402,000. As of June 30, 2017, and December 31, 2016, there is no dividend indebtedness to the parent company.

***Transactions with the key management staff***

The Group regards members of the Board of Directors, Management Boards and top managers of the Group as the key management staff.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For three months that ended on June 30** |  | **For six months that ended on June 30** |
|  | **2017** |  | **2016** |  | **2017** |  | **2016** |
| Salaries and bonuses | 37 934 |  | 66 632 |  | 57 841 |  | 82 739 |

The remunerations to the key management staff disclosed in the Table are the current costs to the key management personnel, which are recorded within the key employees’ costs.

As of June 30, 2017, and December 31, 2016, the Group does not have any liabilities under the defined benefit plans for the key management personnel

***Transactions with companies affiliates with the state***

The Group applies the exemption on disclosures on related party transactions according to IFRS (IAS) 24, Related Parties.

In its operations, the Group enters into transactions with the companies affiliates with the state. These transactions are entered into as applicable at the regulated tariffs.

The share of revenues generated from transactions with the companies affiliates with the state, for three and six months ended in June 30, 2017, amounted to 26% and 23%, respectively (for three and six months that ended on June 30, 2016: 12% and 13%) of total revenues of the Group, including 23% and 22% (for three and six months ended on June 30, 2016: 12% and 13%), resulting from electricity transmission transactions.

The costs incurred in connection with electricity transmission transactions with the companies affiliates with the state, for three and six months ended in June 30, 2017, amounted to 7% and 6%, respectively (for three and six months that ended on June 30, 2016: 6% and 6%) of total electricity transmission costs.

Information on credits and loans received from the companies affiliated with the state is shown in Note 12.

**18. Subsequent events**

On July 4, 2017, 7,860,248,600 ordinary shares in the Company for RUB 786,025,000 were credited to the parent company’s account. This event is due to transfer of the title to the securities issued by the Company to the parent company.

On July 19, 2017, the Group placed documentary interest-bearing non-convertible stock exchange bearer bonds that mature in 2022 for RUB 5,000,000,000, with 9.24% coupon rate. The bond issue is paid by the parent company in full.

After the reporting date, the Group raised long-term bank loans to be repaid in 2019/2020, for RUB 3,299,728,000, and also prepaid RUB 5,000,000,000 long-term bank loan that matures in 2020 and RUB 1,478,109 short-term bank loan that matures in 2017.

The Management believes there are no other economic facts that influenced or may influence the financial standing, the cash flow or the performance of the Group, and which occurred in the period between the reporting date and the date the consolidated intermediate condensed financial statements for three and six months ended on June 30, 2017, were signed.