Consolidated intermediate condensed financial statements

***of Public Joint Stock Company   
Interregional Distribution Grid Company of the South***

for three and six months ending on March 31, 2017

(unaudited)

*June 2017*

|  |  |
| --- | --- |
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| --- | --- | --- | --- | --- |
|  | **Notes** | **For three months ended on  March 31, 2017** |  | **For three months ended on  March 31, 2016** |
| Revenues and governmental subsidies | 7 | 8 636 452 |  | 7 973 718 |
| Operating costs | 8 | (8 836 018) |  | (7 707 733) |
| Net other income | 8 | 627 631 |  | 816 891 |
| **Operating performance** |  | **428 065** |  | **1 082 876** |
| Financial income |  | 12 426 |  | 27 771 |
| Financial costs |  | (693 209) |  | (660 318) |
| Net financial costs |  | **(680 783)** |  | **(632 547)** |
| **Pre-tax (loss)/ profit** |  | (252 718) |  | 450 329 |
| Income tax costs |  | (112 832) |  | (133 829) |
| **(Loss)/ profit for the period** |  | **(365 550)** |  | **316 500** |
|  |  |  |  |  |
| **Other aggregate income** |  |  |  |  |
| ***Items that cannot be later reclassified as profit or losses*** |  |  |  |  |
| Revaluation of defined benefit pension plans |  | (2 917) |  | (6 462) |
|  |  | (2 917) |  | (6 462) |
| ***Items that can be later reclassified as profit or losses*** |  |  |  |  |
| Net changes in the fair market value of financial assets available for sale |  | (251) |  | 598 |
| Respective income tax |  | 50 |  | (120) |
|  |  | (201) |  | 478 |
| **Other aggregate costs, minus income tax** |  | **(3 118)** |  | **(5 984)** |
| **Total aggregate (costs)/ income** |  | **(368 668)** |  | **310 516** |
|  |  |  |  |  |
| **(Loss)/ profit payable to:** |  |  |  |  |
| Company’s owners |  | (365 550) |  | 316 500 |
|  |  |  |  |  |
| **Total aggregate (costs)/ income payable to:** |  |  |  |  |
| Company’s owners |  | (368 668) |  | 310516 |
|  |  |  |  |  |
| **(Loss)/ profit per share - base and diluted (in RUB)** | 11 | **(0,007)** |  | **0,006** |

Consolidated intermediate condensed financial statements was approved and signed by the Company’s management on June 6, 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 7 to 25, making integral part of these consolidated intermediate condensed financial statements.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Notes** | **March 31  2017** |  | **December 31  2016** |
| **ASSETS** |  |  |  |  |
| **Non-current assets** |  |  |  |  |
| Fixed assets | 9 | 20 604 996 |  | 20 575 783 |
| Intangibles |  | 139 240 |  | 148 101 |
| Trade and other receivables |  | 4 606 |  | 26 558 |
| Investments into financial assets |  | 6 359 |  | 6 830 |
| Deferred tax assets |  | 608 059 |  | 791 043 |
| **Total non-current assets** |  | **21 363 260** |  | **21 548 315** |
|  |  |  |  |  |
| **Current assets** |  |  |  |  |
| Inventories |  | 829 887 |  | 773 315 |
| Income tax receivable |  | 726 552 |  | 656 356 |
| Trade and other receivables |  | 13 824 467 |  | 13 747 826 |
| Cash and cash equivalents |  | 1 240 093 |  | 702 084 |
| **Total current assets** |  | **16 620 999** |  | **15 879 581** |
| **TOTAL ASSETS** |  | **37 984 259** |  | **37 427 896** |
|  |  |  |  |  |
| **EQUITY AND LIABILITIES** |  |  |  |  |
| **Equity** |  |  |  |  |
| Share capital | 10 | 4 981 110 |  | 4 981 110 |
| Provision for share issue | 10 | 1 136 704 |  | 143 909 |
| Capital provisions |  | (210 561) |  | (207 443) |
| Retained profit |  | (8 388 405) |  | (8 022 855) |
| **Total equity** |  | **(2 481 152)** |  | **(3 105 279)** |
|  |  |  |  |  |
| **Long-term liabilities** |  |  |  |  |
| Credits and loans | 12 | 21 082 022 |  | 17 232 022 |
| Trade and other payables |  | 137 420 |  | 118 948 |
| Employee’s remuneration payable |  | 112 590 |  | 107 195 |
| **Total long-term liabilities** |  | **21 332 032** |  | **17 458 165** |
|  |  |  |  |  |
| **Short-term liabilities** |  |  |  |  |
| Credits and loans | 12 | 3 867 368 |  | 7 223 561 |
| Trade and other payables |  | 14 684 775 |  | 14 831 074 |
| Provisions | 13 | 581 236 |  | 1 020 375 |
| **Total short-term liabilities** |  | **19 133 379** |  | **23 075 010** |
| **TOTAL LIABILITIES** |  | **40 465 411** |  | **40 533 175** |
| **TOTAL EQUITY AND LIABILITIES** |  | **37 984 259** |  | **37 427 896** |

Data of the consolidated intermediate condensed financial standing statement should be reviewed together with Notes on pages 7 to 25, 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** |  | **Retained profit** |  | **Total equity** |
| **Balance as of January 1, 2016** | **4 981 110** |  | **–** |  | **1 307** |  | **(206 060)** |  | **(6 534 733)** |  | **(1 758 376)** |
| **Profit for the period** | – |  | – |  | – |  | – |  | 316 500 |  | 316 500 |
| Net changes in the fair market value of financial assets available for sale | – |  | – |  | 598 |  | – |  | – |  | 598 |
| Revaluation of defined benefit pension plans | – |  | – |  | – |  | (6 462) |  | – |  | (6 462) |
| Income tax on other aggregate income | – |  | – |  | (120) |  | – |  | – |  | (120) |
| **Total aggregate income for the period** | **–** |  | **–** |  | **478** |  | **(6 462)** |  | **316 500** |  | **310516** |
| **Balance as of March 31, 2016** | **4 981 110** |  | **–** |  | **1 785** |  | **(212 522)** |  | **(6 218 233)** |  | **(1 447 860)** |
| **Balance as of January 1, 2017** | **4 981 110** |  | **143 909** |  | **2 149** |  | **(209 592)** |  | **(8 022 855)** |  | **(3 105 279)** |
| **Loss for the period** | – |  | – |  | – |  | – |  | (365 550) |  | (365 550) |
| Net changes in the fair market value of financial assets available for sale | – |  | – |  | (251) |  | – |  | – |  | (251) |
| Revaluation of defined benefit pension plans | – |  | – |  | – |  | (2 917) |  | – |  | (2 917) |
| Income tax on other aggregate income | – |  | – |  | 50 |  | – |  | – |  | 50 |
| **Total aggregate loss for the period** | **–** |  | **–** |  | **(201)** |  | **(2 917)** |  | **(365 550)** |  | **(368 668)** |
| *Transactions with owners shown directly within equity* |  |  |  |  |  |  |  |  |  |  |  |
| Provision for share issue | – |  | 992 795 |  | – |  | – |  | – |  | 992 795 |
| Dividends | – |  | – |  | – |  | – |  | – |  | – |
| *Total transactions with owners shown directly within equity* | **–** |  | **992 795** |  | **–** |  | **–** |  | **–** |  | **992 795** |
| **Balance as of March 31, 2017** | **4 981 110** |  | **1 136 704** |  | **1 948** |  | **(212 509)** |  | **(8 388 405)** |  | **(2 481 152)** |

Data of the consolidated intermediate condensed capital flow statement should be reviewed together with Notes on pages 7 to 25, making integral part of these consolidated intermediate condensed financial statements.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Notes** | **For three months ended on  March 31, 2017** |  | **For three months ended on  March 31, 2016** |
|  |  |  |  |  |
| **OPERATING BUSINESS** |  |  |  |  |
| **Pre-tax (loss)/ profit** |  | **(252 718)** |  | **450 329** |
| *Adjustments* |  |  |  |  |
| Depreciation | 8 | 525 535 |  | 570 363 |
| Provision for depreciation of trade and other receivables | 8 | (433 829) |  | (726 816) |
| Provisions | 13 | (72 828) |  | 163 250 |
| Financial costs |  | 693 209 |  | 660 318 |
| Financial income |  | (12 426) |  | (27 771) |
| Loss from withdrawal of fixed assets | 8 | 12 |  | 1 173 |
| Other no-cash transactions |  | (892) |  | (1 922) |
| **Operating cash flows w/o taking into account working capital increase** |  | **446 063** |  | **1 088 924** |
|  |  |  |  |  |
| *Change in:* |  |  |  |  |
| Receivables and prepayments receivable |  | 358 599 |  | (1 026 291) |
| Inventories |  | (56417) |  | (84 016) |
| Trade and other payables |  | (1 368) |  | 328 914 |
| Provisions | 13 | (366 311) |  | (44 390) |
| Employee’s remuneration payable |  | 214 |  | 488 |
| **Operating cash flows before income tax payments** |  | **380 780** |  | **263 629** |
| Income tax payment |  | – |  | (16 514) |
| Interest paid |  | (729 483) |  | (682 573) |
| Net cash flow |  | (348 703) |  | (435 458) |
|  |  |  |  |  |
| **INVESTMENT BUSINESS** |  |  |  |  |
| Purchase of fixed assets |  | (639 743) |  | (188 407) |
| Purchase on intangibles |  | (400) |  | (4 051) |
| Receipts from fixed assets sale |  | 21 762 |  | 373 |
| Interest received |  | 12 295 |  | 26 505 |
| **Net cash flow from / (used in) investment business** |  | **(606 086)** |  | **(165 580)** |
|  |  |  |  |  |
| **FINANCIAL BUSINESS** |  |  |  |  |
| Loans and credits received |  | 3 951 249 |  | – |
| Loans and credits repaid |  | (3 451 249) |  | – |
| Receipts from share issue |  | 992 795 |  | – |
| Repayment of dividends |  | 3 |  | – |
| **Net cash flow from / (used in) financial business** |  | **1 492 798** |  | – |
| Net increase/ (decrease) of cash and cash equivalents |  | 538 009 |  | (601 038) |
| **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** |  | **1 240 093** |  | **986 713** |

Data of the consolidated intermediate condensed cash flow statement should be reviewed together with Notes on pages 7 to 25, 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.

Information on IDGC of the South, PJSC subsidiaries is disclosed in Note 4.

The core line of business of the Company and its subsidiaries (hereinafter “Group”) 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 March 31, 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 three months ended on March 31, 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 March 31, 2017, the shortage of the working capital of the Group (mostly related to trade and other payables and short-term loans and credits) amounted to RUB 2,512,380,000 (as of December 31, 2016: RUB 7,195,429,000).

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 9 months 2017, the Group plans to raise long-term bank loans for RUB 9,028,109,000, which will be fully channeled towards refinancing of earlier raised loans and credits.

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.

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.

**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 to the current rules established in IFRS (IAS) 17, Lease, were made as concerns the lessors. 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 March 31, 2017, and December 31, 2016, includes the Company and its subsidiaries:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Ownership stake, %** | | | | |
| **Subsidiary’s name** |  | **CORE LINES OF BUSINESS** |  | **March 31, 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 March 31, 2017, or for three months ended on June 31, 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 March 31, 2017: | | | | | | | | | | | |
|  | | | | | | | | | | | |
|  | **Electricity transmission** | | | | | | |  |  |  |  |
|  | **Astrakhanenergo** |  | Volgogradenergo |  | **Kalmenergo** |  | **Rostovenergo** |  | **Other** |  | **Total** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Reporting segment revenues** |  |  |  |  |  |  |  |  |  |  |  |
| Electricity transmission | 1 211 642 |  | 2 598 803 |  | 160 062 |  | 4 368 563 |  | – |  | 8 339 070 |
| Technological connection to power grids | 2 172 |  | 2 945 |  | 32 |  | 20 083 |  |  |  | 25 232 |
| Electricity and capacity sale |  |  |  |  | 218 586 |  |  |  |  |  | 218 586 |
| Other revenues | 4 549 |  | 6 767 |  | 4 278 |  | 17 553 |  | 19 654 |  | 52 801 |
| Revenues from sales between segments | – |  | – |  | – |  | 117 |  | – |  | 117 |
| **Total reporting segment revenues** | **1 218 363** |  | **2 608 515** |  | **382 958** |  | **4 406 316** |  | **19 654** |  | **8 635 806** |
| **Pre-tax (loss)/ profit of the reporting segment** | **(289 211)** |  | **377 931** |  | **(275 082)** |  | **110 996** |  | **(10 913)** |  | **(86 279)** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Information on reporting segments for three months ended on March 31, 2016: | | | | | | | | | | | |
|  | | | | | | | | | | | |
|  | **Electricity transmission** | | | | | | |  |  |  |  |
|  | **Astrakhanenergo** |  | Volgogradenergo |  | **Kalmenergo** |  | **Rostovenergo** |  | **Other** |  | **Total** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Reporting segment revenues** |  |  |  |  |  |  |  |  |  |  |  |
| Electricity transmission | 1 150 086 |  | 2 534 037 |  | 228 729 |  | 3 976 046 |  | – |  | 7 888 898 |
| Technological connection to power grids | 8 244 |  | 3 661 |  | 48 |  | 16 666 |  |  |  | 28 619 |
| Other revenues | 6 854 |  | 9 651 |  | 3 990 |  | 16 798 |  | 17 003 |  | 54 296 |
| Revenues from sales between segments | – |  | – |  | – |  | 28 |  | – |  | 28 |
| **Total reporting segment revenues** | **1 165 184** |  | **2 547 349** |  | **232 767** |  | **4 009 538** |  | **17 003** |  | **7 971 841** |
| **Pre-tax profit / loss of the reporting segment** | **(258 951)** |  | **888 925** |  | **(265 830)** |  | **(3 797)** |  | **(10 133)** |  | **350 214** |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Information on reporting segments as of March 31, 2017: | | | | | | | | | | | |
|  | | | | | | | | | | | |
|  | **Electricity transmission** | | | | | | |  |  |  |  |
|  | **Astrakhanenergo** |  | Volgogradenergo |  | **Kalmenergo** |  | **Rostovenergo** |  | **Other** |  | **Total** |
| **Reporting segment assets** | **6 710 923** |  | **12 485 747** |  | **3 287 782** |  | **20 260 751** |  | **432 989** |  | **43 178 192** |
| *including fixed assets* | 4 717 292 |  | 6 251 041 |  | 2 624 868 |  | 14 829 302 |  | 235 247 |  | 28 657 750 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| 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 ended on  March 31, 2017** |  | **For three months ended on  March 31, 2016** |
| **Pre-tax (loss)/ profit of reporting segments** | **(86 279)** |  | **350 214** |
| Adjustment of the provision for receivables impairment | (211 589) |  | – |
| Adjustments of residual value of fixed assets | 134 967 |  | 90 510 |
| Recognition of the employee’s remuneration payable | (2 478) |  | (2 818) |
| Financial instrument discounting | 44 |  | 967 |
| Adjustment of prepaid expenses | 4015 |  | 14313 |
| Other adjustments | (91 521) |  | (2 857) |
| Other unallocated amounts | 123 |  | – |
| **Consolidated pre-tax (loss)/ profit** | **(252 718)** |  | **450 329** |

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 months ended on March 31, 2017, the Group had two buyers: sales companies in two Russian regions with individual sales volumes exceeding 10% of the Group’s total revenues. The revenues for three months ended on March 31, 2017, amounted for these buyers to: RUB 1,071,510,000 (Astrakhanenergo) and RUB 2,486,354,000 (Rostovenergo).

For three months ended on March 31, 2016, the Group had two buyers: sales companies in two Russian regions with individual sales volumes exceeding 10% of the Group’s total revenues. The revenues for three months ended on March 31, 2016, for these buyers came to RUB 978,495,000 (Astrakhanenergo) and RUB 2,213,281,000 (Rostovenergo)

**7. Revenues**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For three months ended on  March 31, 2017** |  | **For three months ended on  March 31, 2016** |
| Electricity transmission | 8 339 070 |  | 7 888 898 |
| Electricity and capacity sale | 218 586 |  | – |
| Technological connection to power grids | 25 232 |  | 28 619 |
| Other revenues | 53 564 |  | 54 452 |
| **Total revenues** | **8 636 452** |  | **7 971 969** |
| Governmental subsidies | – |  | 1 749 |
| **Total** | **8 636 452** |  | **7 973 718** |

**8. Income and expenses**

**(а) Operating costs**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For three months ended on  March 31, 2017** |  | **For three months ended on  March 31, 2016** |
| Production work and services, including | 2 399 821 |  | 2 127 668 |
| *Electricity transmission services* | *2 375 624* |  | *2 104 705* |
| *Repairs and maintenance services* | *15 643* |  | *14 571* |
| *Other production work and services* | *8 554* |  | *8 392* |
|  |  |  |  |
| Employees’ remuneration costs | 1 781 470 |  | 1 726 388 |
|  |  |  |  |
| **Tangible costs, including** | **2 692 549** |  | **2 475 857** |
| *Electricity for making up for technological losses* | *2 345 115* |  | 2 *233 832* |
| *Purchased electricity and thermal energy for own needs* | *108101* |  | *98241* |
| *Purchased electricity and capacity to be sold* | *88 058* |  | – |
| *Other tangible costs* | *151 275* |  | *143 784* |
|  |  |  |  |
| Depreciation | 525 535 |  | *570 363* |
|  |  |  |  |
| **Other third parties’ services, including** | **196 384** |  | **156 324** |
| *Advisory, legal and audit services* | *44 866* |  | *2 358* |
| *Management services* | *33 274* |  | *33 274* |
| *Costs related to property maintenance* | *30 800* |  | *41 605* |
| *Safeguarding* | *22 532* |  | *20 767* |
| *Communications services* | *18 767* |  | *19 251* |
| *Transportation services* | *9 823* |  | *3 280* |
| *Software and support services* | *7 760* |  | *6110* |
| *Other third parties’ services* | *28 562* |  | *29 679* |
|  |  |  |  |
| Provisions | – |  | 163 250 |
| Penalties, fines, forfeits submitted to the Company for violation of contractual conditions | 408 357 |  | 113 623 |
| Taxes and charges, except for income tax | 102 653 |  | 94 097 |
| Lease | 22 618 |  | 50 248 |
| Travel expenses | 17 656 |  | 15 208 |
| Insurance | 14 907 |  | 15 164 |
| Loss from withdrawal of fixed assets | 12 |  | 1 173 |
| Other costs | 674 056 |  | 198 370 |
|  | **8 836 018** |  | **7 707 733** |

For three months ended on March 31, 2017, the following was included into penalties, fines and forfeits for violation of contractual conditions: costs under contracts with FSK UES PJSC for RUB 136,331,000; Astrakhan Energy Sales Company PJSC, RUB 112,965,000, TNS Energo Rostov-on-Don PJSC, RUB 111,078,000, Energy JSC, RUB 24,176,000 (for three months ended on March 31, 2016, RUB 9,887,000, RUB 53,824,000, RUB 0, and RUB 31,111,000, respectively).

Other costs include losses of previous years of RUB 654,558,000, which were recognized in the financial statements for the three months ended on March 31, 2017 (for the three months ended on March 31, 2016: RUB 192,954,000 and RUB 578,923,000), in particular, according to the court judgments and settlement of disputes with power supply companies.

**(b) Net other income**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For three months ended on  March 31, 2017** |  | **For three months ended on  March 31, 2016** |
| Reinstatement of the provision for receivables impairment | 433 829 |  | 726 816 |
| Penalties and fine | 108 114 |  | 65 483 |
| Provisions | 72 828 |  | – |
| Reimbursements under loss events | 9 437 |  | 14519 |
| Detected non-contractual electricity consumption | 2 422 |  | 7 730 |
| Write-off of trade and other payables | 345 |  | 1 439 |
| Donated assets, including surpluses | 656 |  | 904 |
|  | **627 631** |  | **816 891** |

.

**9. Fixed assets**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Land plots and buildings** |  | **Power grids** |  | **Transformer substations** |  | **Other** |  | **Construction-in-progress** |  | **Total** |
| *Value/ conventional initial value* |  |  |  |  |  |  |  |  |  |  |  |
| **Balance as of December 31, 2015** | **3 094 292** |  | **18 962 044** |  | **12 193 863** |  | **6 352 134** |  | **2 443 868** |  | **43 046 201** |
| Reclassification between categories | – |  | *58862* |  | *(58 923)* |  | *61* |  | – |  | – |
| **Balance as of January 1, 2016** | **3 094 292** |  | **19 020 906** |  | **12 134 940** |  | **6 352 195** |  | **2 443 868** |  | **43 046 201** |
| Receipts | – |  | – |  | – |  | 430 |  | 196 405 |  | 196 835 |
| Commissioning | 8 483 |  | 32419 |  | 22 606 |  | 576 |  | (64 084) |  | – |
| Withdrawals | (362) |  | (648) |  | (883) |  | (3 710) |  | (187) |  | (5 790) |
| **Balance as of March 31, 2016** | **3 102 413** |  | **19 052 677** |  | **12 156 663** |  | **6 349 491** |  | **2 576 002** |  | **43 237 246** |
| **Balance as of December 31, 2016** | **3 145 751** |  | **19 851 743** |  | **12 414 980** |  | **6 393 063** |  | **3 327 099** |  | **45 132 636** |
| Reclassification between categories | *(114 382)* |  | *2* |  | *5 408* |  | *108 912* |  | – |  | – |
| **Balance as of January 1, 2017** | **3 031 369** |  | **19 851 745** |  | **12 420 388** |  | **6 502 035** |  | **3 327 099** |  | **45 132 636** |
| Receipts | – |  | – |  | – |  | 16 685 |  | 536 647 |  | 553 332 |
| Commissioning | 1 298 |  | 70 900 |  | 45 212 |  | 2 589 |  | (119 999) |  | – |
| Withdrawals | (2 621) |  | (4 137) |  | (1 324) |  | (7 821) |  | (4 360) |  | (20 263) |
| **Balance as of March 31, 2017** | **3 030 046** |  | **19 918 508** |  | **12 464 276** |  | **6 513 488** |  | **3 739 387** |  | **45 665 705** |

**9. Fixed assets (continued)**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *Depreciation and depreciation loss* |  |  |  |  |  |  |  |  |  |  |  |
| **Balance as of December 31, 2015** | **(1 298 555)** |  | **(10 686 082)** |  | **(6 030 406)** |  | **(4 088 531)** |  | **(12 862)** |  | **(22 116 436)** |
| Reclassification between categories | – |  | – |  | 5 |  | *(5)* |  | – |  | - |
| **Balance as of January 1, 2016** | **(1 298 555)** |  | **(10 686 082)** |  | **(6 030 401)** |  | **(4 088 536)** |  | **(12 862)** |  | **(22 116 436)** |
| Accrued for the period | (32 954) |  | (236 241) |  | (169 051) |  | (129 119) |  | – |  | (567 365) |
| Introduction and composition of fixed assets | – |  | (10) |  | – |  | – |  | 10 |  |  |
| Withdrawals | 306 |  | 619 |  | 502 |  | 1 280 |  | – |  | 2 707 |
| **Balance as of March 31, 2016** | **(1 331 203)** |  | **(10921 714)** |  | **(6 198 950)** |  | **(4 216 375)** |  | **(12 852)** |  | **(22 681 094)** |
| **Balance as of December 31, 2016** | **(1 491 355)** |  | **(11 869 132)** |  | **(6 758 749)** |  | **(4 428 054)** |  | **(9 563)** |  | **(24 556 853)** |
| Reclassification between categories | *25 877* |  | *(2)* |  | *(3 328)* |  | *(22 547)* |  |  |  |  |
| **Balance as of January 1, 2017** | **(1 465 478)** |  | **(11 869 134)** |  | **(6 762 077)** |  | **(4 450 601)** |  | **(9 563)** |  | **(24 556 853)** |
| Accrued for the period | (29 783) |  | (220 794) |  | (161 135) |  | (105 011) |  |  |  | (516 723) |
| Withdrawals | 2514 |  | 2 446 |  | 378 |  | 7 529 |  |  |  | 12 867 |
| **Balance as of March 31, 2017** | **(1 492 747)** |  | **(12 087 482)** |  | **(6 922 834)** |  | **(4 548 083)** |  | **(9 563)** |  | **(25 060 709)** |
| *Residual value* |  |  |  |  |  |  |  |  |  |  |  |
| **Balance as of January 1, 2016** | **1 795 737** |  | **8 334 824** |  | **6 104 539** |  | **2 263 659** |  | **2 431 006** |  | **20 929 765** |
| **Balance as of March 31, 2016** | **1 771 210** |  | **8 130 963** |  | **5 957 713** |  | **2 133 116** |  | **2 563 150** |  | **20 556 152** |
| **Balance as of January 1, 2017** | **1 565 891** |  | **7 982 611** |  | **5 658 311** |  | **2 051 434** |  | **3 317 536** |  | **20 575 783** |
| **Balance as of March 31, 2017** | **1 537 299** |  | **7 831 026** |  | **5 541 442** |  | **1 965 405** |  | **3 729 824** |  | **20 604 996** |

**10. Equity**

**Share capital**

As of March 31, 2017, and December 31, 2016, the registered and issued share capital consists of 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 11,615,154 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 of this right, shareholders contributed RUB 143,909,000 to the Company’s share capital. Upon expiry of the period for exercising the pre-emptive right to purchase the Company’s shares under the subscription, which was open till March 31, 2017, RUB 992,795,000 was contributed to the Company’s share capital. Before the state registration of changes made to the Company’s share capital, the contribution was recognized as the provision for share issue within the equity: as of March 31, 2017, the provision for share issue of RUB 1,136,704,000 was recognized (as of December 31, 2016, at RUB 143,909,000)

**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.

The annual General Meeting of the Company’s Shareholders to be held on June 13, 2017, will review payment of dividends for 2016. The Board of Directors’ meeting held on May 5, 2017, recommended to the General Meeting of Shareholders not to pay dividends on the Company’s ordinary shares for 2016.

The Annual General Meeting of the Company’s Shareholders held on June 6, 2016, resolved to pay RUB 142,096,000 dividends (RUB 0.002852693 per ordinary share in the Company) for 2015 As of December 31, 2016, RUB 140,378,000 dividends were paid. During three months ended on March 31, 2017, the Company paid no dividends. RUB 3,000 dividends declared in the previous periods were refunded to the Registrar. As of March 31, 2017, RUB 1,815,000 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  March 31, 2017** |  | **For three months ended on  March 31, 2016** |
| Weighted average number of ordinary shares for the period (‘000 pcs) | 49 811 096 |  | 49 811 096 |
| (Loss)/ profit due to the Company’s owners | (365 550) |  | 316 500 |
| **(Loss)/profit per share (RUB), basic and  diluted** | **(0,007)** |  | **0,006** |

**12. Credits and loans**

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March 31, 2017** |  | **December 31, 2016** |
| **Long-term credits and loans** |  |  |  |
| Insecure bank credits | 18 382 022 |  | 17 882 022 |
| Issued unsecured bonds | 5 000 000 |  | 5 000 000 |
|  | **23 382 022** |  | **22 882 022** |
| *Minus the current portion of long-term loans and credits* | *(2 300 000)* |  | *(5 650 000)* |
|  | **21 082 022** |  | **17 232 022** |
| **Short-term loans and current portion of long-term loans and credits** |  |  |  |
| Insecure bank credits | 1 528 109 |  | 1 528 109 |
| Interest on bank credits | 5 969 |  | 10312 |
| Interest on issued bonds | 33 290 |  | 35 140 |
| **Current portion of long-term loans and credits** | *2 300 000* |  | *5 650 000* |
|  | **3 867 368** |  | **7 223 561** |

Credit and Loan repayment conditions and schedule:

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Effective interest rate** | | |  |  |  | **March 31, 2017** | | |  | **December 31, 2016** | | |
| **Lender’s name** |  | **March 31  2017** |  | **December 31  2016** |  | **Year of repayment** |  | **Par value** |  | **Book value** |  | **Par value** |  | **Book value** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Insecure bank credits* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Sberbank PJSC\* |  | 10.59- 12,45% |  | 11.25- 12,45% |  | 2018-2019 |  | 6 585 000 |  | 6 585 000 |  | 6 585 000 |  | 6 585 000 |
| Gazprombank JSC\* |  | 10.80% |  | 10,80% |  | 2019 |  | 1 500 000 |  | 1 500 000 |  | 1 500 000 |  | 1 500 000 |
| Gazprombank JSC\* |  | Russian Central Bank key rate +1% |  | 11,00% |  | 2019 |  | 1 842 322 |  | 1 842 322 |  | 1 342 322 |  | 1 342 322 |
| Sberbank PJSC\* |  | 12.50% |  | 12,50% |  | 2018 |  | 2 804 700 |  | 2 804 700 |  | 2 804 700 |  | 2 804 700 |
| Rossiya JSB JSC |  | 11% |  | - |  | 2020 |  | 1 350 000 |  | 1 350 000 |  | – |  | – |
| VBRR Bank JSC |  | 10,99% |  | - |  | 2020 |  | 2 000 000 |  | 2 000 000 |  | – |  | – |
|  |  |  |  |  |  |  |  | **16 082 022** |  | **16 082 022** |  | **12 232 022** |  | **12 232 022** |
| *Bond issues* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bond issue\* |  | 13,50% |  | 13,50% |  | 2020 |  | 5 000 000 |  | 5 000 000 |  | 5 000 000 |  | 5 000 000 |
|  |  |  |  |  |  |  |  | **5 000 000** |  | **5 000 000** |  | **5 000 000** |  | **5 000 000** |
|  |  |  |  |  |  |  |  | **21 082 022** |  | **21 082 022** |  | **(7 232 022** |  | **17 232 022** |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Effective interest rate** | | |  |  |  | **March 31, 2017** | | |  | **December 31, 2016** | | |
| **Lender’s name** |  | **March 31  2017** |  | **December 31  2016** |  | **Year of repayment** |  | **Par value** |  | **Book value** |  | **Par value** |  | **Book value** |
| *Insecure bank credits* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| {0>Sberbank PJSC\*<0} |  | 11,81% |  | 11,81% |  | 2017 |  | 1 528 109 |  | 1 528 109 |  | 1 528 109 |  | 1 528 109 |
|  |  |  |  |  |  |  |  | **1 528 109** |  | **1 528 109** |  | **1 528 109** |  | **1 528 109** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Interest on bond issue\*\** |  |  |  |  |  |  |  | 33 290 |  | 33 290 |  | 35 140 |  | 35 140 |
| *Interest on insecure ban loans* |  |  |  |  |  |  |  | 5 969 |  | 5 969 |  | 10312 |  | 10312 |
|  |  |  |  |  |  |  |  | **39 259** |  | **39 259** |  | **45 452** |  | **45 452** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Current portion of long-term loans and credits** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| {0>Sberbank PJSC\*<0} |  | 9,39-11,85% |  | 9.39-11,85% |  | 2017 |  | 2 300 000 |  | 2 300 000 |  | 5 650 000 |  | 5 650 000 |
|  |  |  |  |  |  |  |  | **2 300 000** |  | **2 300 000** |  | **5 650 000** |  | **5 650 000** |
|  |  |  |  |  |  |  |  | **3 867 368** |  | **3 867 368** |  | **7 223 561** |  | **7 223 561** |

\*– Credits from banks affiliated with the state

\*\*– Bond issue repurchased by the parent company

All of the Group’s loans and credits are denominated in Russian rubles.

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

As of March 31, 2017, and December 31, 2016. there were no bank loans secured with the fixed asset pledge.

**13. Provisions**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For three months ended on  March 31, 2017** |  | **For three months ended on  March 31, 2016** |
| **Start-of-period balance** | **1 020 375** |  | **1 935 907** |
| Provisions accrued for the period | – |  | 243 453 |
| Change in assessments for the period | (72 828) |  | (80 203) |
| Use of the provision for the period | (366 311) |  | (44 390) |
| **End-of-year balance** | **581 236** |  | **2 054 767** |

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 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 other financial assets and financial liabilities as of March 31, 2017, and as of December 31, 2016, is close to their book value.

**15. Capital liabilities**

As of March 31, 2017, the amount of total liabilities under contracts involving purchase and construction of fixed assets is RUB 2,866,959,000, net of VAT (December 31, 2016: RUB 3,258,096,000).

**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 March 31, 2017 and December 31, 2016, the Group does not have any guarantees.

**17. Related party transactions**

***Control relations***

As of March 31, 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**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Transaction amount for three months ended on March 31, 2017** | | |  | **Book value** | | |
|  | **2017** |  | **2016** |  | **March 31  2017** |  | **December 31  2016** |
| **Parent company** |  |  |  |  |  |  |  |
| Lease | 410 |  | 410 |  | 161 |  | - |
| Other revenues and income | 9 926 |  | – |  | 96 777 |  | 346 251 |
| **Enterprises under common control of the parent company** |  |  |  |  |  |  |  |
| Revenues from electricity transmission | 106 379 |  | 114 440 |  | 83 330 |  | 86 979 |
| Lease | 2 137 |  | 6314 |  | 22 983 |  | 36 462 |
| Revenues from other services | 1 942 |  | 87 |  | 39 450 |  | 59 657 |
|  | **120 794** |  | **121 251** |  | **242 701** |  | **529 349** |

**Costs**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Transaction amount for three months ended on March 31, 2017** | | |  | **Book value** | |
|  | **2017** |  | **2016** |  | **March 31  2017** | **December 31  2016** |
| **Parent company** |  |  |  |  |  |  |
| Management services | 33 274 |  | 33 274 |  | 15 706 | 7 853 |
| Technical supervision | 7 135 |  | 7 134 |  | 3 206 | 1 522 |
| Bond issue and interest | 161 026 |  | 162 268 |  | 5 033 290 | 5 035 140 |
| Other services | 1 237 |  | – |  | – | – |
| **Enterprises under common control of the parent company** |  |  |  |  |  |  |
| Electricity transmission | 1 777 846 |  | 1 601 309 |  | 7 108 709 | 6 235 184 |
| Electricity purchased to make up for losses | 70 713 |  | 65 191 |  | – | – |
| Lease | 1 369 |  | 1 668 |  | 277 | 277 |
| Other | 27 838 |  | 22 114 |  | 978 069 | 902 907 |
|  | **2 080 438** |  | **1 892 958** |  | **13 139 257** | **12 182 883** |

As of March 31, 2017, the balance of prepayments given to related parties came to RUB 19,678,000 and prepayments received from related parties, RUB 17,580,000 (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 March 31, 2017, and December 31, 2016, there is no dividend indebtedness to the parent company.

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

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For three months ended on  March 31, 2017** |  | **For three months ended on  March 31, 2016** |
| Salaries and bonuses | 19 907 |  | 16 107 |

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 March 31, 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 from transactions with the companies affiliated with the state, for three months ended on March 31, 2017, amounted to 14.9% (for three months ended on March 31, 2016: 14.0%) of the Group’s total revenues, including 14.7% (three months ended on March 31, 2016: 13.9%), resulting from electricity transmission transactions.

The costs incurred in connection with electricity transmission transactions with the companies affiliates with the state, for three months ended on March 31, 2017, amounted to 6% (for three months ended on March 31, 2016: 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 April 7, 2017, the extraordinary General Meeting of IDGC of the South, PJSC Shareholders approved the resolution to increase the Company’s 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.

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 months ended on March 31, 2017, were signed.