Consolidated intermediate condensed financial
statements

Of the Interregional
Distribution Grid Company of the South, Public Joint-stock Company and its subsidiary
companies

For three and nine months ending on 30th of September, 2017

(Unaudited)

November, 2017.

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| Group of companies “IDGC of the South” |
| Consolidated interim brief statement on incomes or expenditures and other total revenue for three and nine months ending on 30th of September, 2017 (unaudited) |
| (in thousands of Russian Rubles unless otherwise stated) |
|  |  | For three months ended on 30th of September |  | For nine months ended on 30th of September |
|
|  | Note | 2017 |  | 2016 |  | 2017 |  | 2016 |
| Revenues | 7 | 9 006 641 | 7 806 085 | 25 646 900 | 22 876 720 |
| Operating costs | 8 | (7 149 373) | (7 096 612) | (23 116 883) | (22 152 880) |
| Net other income | 8 | 353,058 | 500,062 | 1 176 917 | 1 239 064 |
| Operating result |  | 2 210 326 | 1 209 535 | 3 706 934 | 1 962 904 |
| Finance income |  | 23 959 | 27 964 | 52 193 | 79 813 |
| Financial costs |  | (593 137) | (720 464) | (1 992 289) | (2 066 218) |
| Net financial expenses |  | (569 178) | (692 500) | (1 940 096) | (1 986 405) |
| Income/(expenditure) before tax assessment |  | 1 641 148 | 517,035 | 1 766 838 | (23 501) |
| (Costs)/ savings for income tax |  | (62 893) | (245 928) | (306 139) | 16 547 |
| Income/(expenditure) for the period |  | 1 578 255 | 271,107 | 1 460 699 | (6 954) |
| Other comprehensive income |  |  |  |  |  |
| Items that could be reclassified or may be subsequently reclassified to profit or loss: |  |  |  |  |  |
| Revaluation of defined benefit pension plans |  | (1 927) | 7 520 | (3 853) | (5 561) |
|  |  | (1 927) | 7 520 | (3 853) | (5 561) |
| Items that could be reclassified or may be subsequently reclassified to profit or loss: |  |  |  |  |  |
| Net changes in the fair market value of financial assets available for sale |  | 459 | 120 | (89) | 1 520 |
| Respective income tax |  | (92) | (24) | 17 | (304) |
|  |  | 367 | 96 | (72) | 1 216 |
| Other aggregate (expenditure)/income less profits tax |  | (1 560) | 7616 | (3 925) | (4 345) |
| Total aggregate income/ (expenditure) |  | 1 576 695 | 278,723 | 1 456 774 | (11 299) |
| Profit/(loss) payable to:Company’s owners |  | 1 578 255 | 271,107 | 1 460 699 | (6 954) |
| Total aggregate income/ (expenditure) payable to:Company’s owners |  | 1 576 695 | 278,723 | 1 456 774 | (And 299) |
| Profit/(loss) per stock – underlying and diluted (in Russian Rubles) | 11 | 0.023 | 0.005 | 0.024 | (0,0001) |

Consolidated interim short financial statements were approved and signed on the behalf of the Company's management 22 of November, 2017

Director General B. B. Ebzeyev

Chief Accountant G. G. Savin

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| Group of companies “IDGC of the South” |
| Consolidated interim short report on circumstance on30 of September, 2017(unaudited) |
| (in thousands of Russian Rubles unless otherwise stated) |
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|  | Note | 30 of September, 2017 |  | 31 of December, 2016 |
| ASSETS |  |  |  |
| Non-current assets |  |  |  |
| Fixed assets | 9 | 20 889 380 | 20 575 783 |
| Intangibles |  | 137,335 | 148,101 |
| Trade and other receivables |  | 3 464 | 26 558 |
| Investments into financial assets |  | 6419 | 6 830 |
| Deferred tax assets |  | 269,743 | 791,043 |
| Total Non-Current Assets |  | 21 306 341 | 21 548 315 |
| Current assets |  |  |  |
| Inventories |  | 827,642 | 773 315 |
| Income tax receivable |  | 527,937 | 656,356 |
| Trade and other receivables |  | 13 142313 | 13 747 826 |
| Cash and Cash Equivalents |  | 1 030 407 | 702 084 |
| Total of current assets |  | 15 528 299 | 15 879 581 |
| TOTAL ASSETS |  | 36 834 640 | 37 427 896 |
| EQUITY AND LIABILITIES |  |  |  |
| Equity |  |  |  |
| The Share Capital | 10 | 6 117814 | 4981 |
| Provision for share issue | 10 | 786,092 | 143,909 |
| Capital provisions |  | (211 368) | (207 443) |
| Retained profit |  | (6 562 156) | (8 022 855) |
| Total equity |  | 130,382 | (3 105 279) |
| Long-term liabilities |  |  |  |
| Borrowings | 12 | 19 392 050 | 17 232 022 |
| Trade and other payables |  | 2 958 273 | 118 948 |
| Employee’s remuneration payable |  | 116 169 | 107 195 |
| Total long-term liabilities |  | 22 466 492 | 17 458 165 |
| Short-term liabilities |  |  |  |
| Borrowings | 12 | 5 698 132 | 7 223 561 |
| Trade and other payables |  | 8 254 405 | 14 831 074 |
| Provisions | 13 | 285,229 | 1 202 375 |
| Total current liabilities |  | 14 237 766 | 23 075 010 |
| TOTAL LIABILITIES |  | 36 704 258 | 40 533 175 |
| TOTAL EQUITY AND LIABILITIES |  | 36 834 640 | 37 427 896 |

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| Group of companies “IDGC of the South” |
| Consolidated interim short report on capital changes for nine months ended on 30 of September, 2017 (unaudited) |
| (in thousands of Russian Rubles unless otherwise stated) |
|  |
|  | **Capital payable to the owners of the Company** |
|  | **The Share Capital** |  | **Provision for share issue** |  | **Revaluation reserve for available-for-sale financial assets** |  | **Revaluation reserve for pension plan with given pay-offs** |  | **Undivided****(income)/expenditure** |  | **Total equity** |
| **Balance as at 1 January 2016** | **4 981 110** | **-** | **1 307** | **(206 060)** | **(6 534 733)** | **(1 758 376)** |
| Loss for the period | - | - | - | - | (6 954) | (6 954) |
| Net changes in the fair market value of financial assets available for sale |  | \_ | 1 520 |  |  | 1 520 |
| Revaluation of defined benefit pension plans | - | - | - | (5 561) | - | (5 561) |
| Income tax on other aggregate income | - | - | (304) | - | - | (304) |
| **Total aggregate profit/(loss) for the period** | **-** | **-** | **1 216** | **(5 561)** | **(6 954)** | **(11 299)** |
| Transactions with owners, reflected directly in equity |  |  |  |  |  |  |
| Dividends | - | - | - | - | (142 096) | (142 096) |
| **Total transactions with owners, reflected directly in equity** |  |  |  |  | **(142 096)** | **(142 096)** |
| **Balance on 30 of September, 2016** | **4 981 110** | **-** | **2 523** | **(211 621)** | **(6 683 783)** | **(1 911 771)** |
| **Balance on 1 of January, 2017** | **4 981 110** | **143,909** | **2 149** | **(209 592)** | **(8 022 855)** | **(3 105 279)** |
| Profit for the period | - | - | - | - | 1 460 699 | 1 460 699 |
| Net changes in the fair market value of financial assets available for sale | \_\_ | — | (89) | \_ |  | (89) |
| Revaluation of defined benefit pension plans | - | - | - | (3 853) | - | (3 853) |
| Income tax on other aggregate income | - | - | 17 | - | - | 17 |
| **Total aggregate (loss)/profit for the period** | **—** | **-** | **(72)** | **(3 853)** | **1 460 699** | **1 456 774** |
| Transactions with owners, reflected directly in equity |  |  |  |  |  |  |
| Provision for share issue | - | 1 778 887 | - | - | - | 1 778 887 |
| Capital increase | 1 136 704 | (1 136 704) | „ | - | \_ | - |
| **Total transactions with owners, reflected directly in equity** | **1 136 704** | **642,183** |  |  |  | **1 778 887** |
| **Balance on 30 of September, 2017** | **6 117 814** | **786,092** | **2 077** | **(213 445)** | **(6 562 156)** | **130,382** |

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| Group of companies “IDGC of the South” |
| Consolidated interim condensed statement of cash flow for nine months ended on 30 of September, 2017 (unaudited) |
| (in thousands of Russian Rubles unless otherwise stated) |
|  |
|  | **Note** | **For nine months ended on 30 of September, 2017** |  | **For nine months ended on 30 of September, 2017** |
| **OPERATIONAL ACTIVITY** |  |  |  |
| **Income/(expenditure) before tax assessment** |  | **1 766 838** | **(23 501)** |
| Adjustments:Depreciation | 8 | 1 579 754 | 1 668 352 |
| Provision for impairment of trade and other accounts receivable | 8 | (136 683) | (489 354) |
| Provisions | 13 | (63 685) | 827,242 |
| Financial costs |  | 1 992 289 | 2 066 218 |
| Finance income |  | (52 193) | (79 813) |
| Income/(loss) from retirement of capital assets | S | (2 718) | 3 794 |
| Other non-cash transactions |  | (1 427) | (1 888) |
| **Cash flows from operating activities excluding changes in working capital** |  | **5 082 175** | **3 971 050** |
| Revision: |  |  |  |
| Receivables and prepayments receivable |  | 904,564 | (1 724 169) |
| Funds |  | (54 052) | (122 169} |
| Trade and other payables |  | (3 543 560) | 1 766 661 |
| Provisions | 13 | (671 461) | (1 228 192) |
| Employee’s remuneration payable |  | (1 464) | (1 646) |
| **Cash flows from operating activities before income tax** |  | **1 716 202** | **2 661 535** |
| Income tax payment |  | 185,297 | (485 982) |
| Paid interests |  | (2 012 783) | (2 137 729) |
| **Net cash flow (used in)/from operating business** |  | **(111 284)** | **37 824** |
| **INVESTMENT ACTIVITY** |  |  |  |
| Purchase of fixed assets |  | (1 978 037) | (665 571) |
| Acquisition of intangible assets |  | (5 146) | (18 113) |
| Receipts from fixed assets sale |  | 22 017 | 5 020 |
| Dividends received |  | 148 | 128 |
| Interest received |  | 48 665 | 76 802 |
| **Net cash flows used in investing activities** |  | **(1 912 353)** | **(601 734)** |
| **FINANCIAL ACTIVITY** |  |  |  |
| Loans and credits received |  | 19 256 982 | 8 045 513 |
| Loans and credits repaid |  | (18 683 863) | (8 045 513) |
| Receipts from share issue |  | 1 778 887 | - |
| Dividends paid |  | (46) | (140 809) |
| **Net cash flow from/(used in) financial business** |  | **2 351 960** | **(140 809)** |
| Net increase/ (decrease) of cash and cash equivalents |  | 328,323 | (704 719) |
| **Cash and its equivalents as of the start of reporting period** |  | **702 084** | **1 587 751** |
| **Cash and its equivalents as of the end of reporting period** |  | **1 030 407** | **883,032** |

1. Group and its operations

General 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, according to Resolution No. 192 of RAO Unified Energy 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,

OJSC “Volgogradenergo”. 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 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. Pursuant to the Decree, in accordance with the decision of the extraordinary General shareholders ' meeting held on March 23, 2013, JSC “IDGC Holding” officially renamed into the Public joint-stock company (formerly open joint stock company) "Russian grids" (hereinafter referred to as PJSC “ROSSETI”).

As of September 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.

The conditions of implementation of economic activity in the Russian Federation

The Group operates in the Russian Federation. Accordingly, the business of the Group is influenced by the national economy and financial markets, which are inherent features of the developing market. 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.

The events in Ukraine and the subsequent negative reaction of the international community have had, and may continue to have a negative impact on the Russian economy, including the complexity of attracting international financing, depreciation of the national currency and high inflation. These and other events in the event of escalation can have a significant negative 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.

1. Fundamental principles of drafting financial statements

Statement of compliance

These Consolidated intermediate condensed financial statements for the six months ended on September 30, 2017, was drafted under IFRS (IAS) 34, Intermediate Financial Statements. These consolidated interim condensed financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2016, which was prepared in accordance with International financial reporting standards ("IFRS").

Base for the cost determination

Consolidated interim condensed financial statements have been prepared in accordance with IFRS based on historical (original) cost, except for financial investments classified in the category financial assets available-for-sale and reflected at fair value; and assets that have been valued at the carrying amounts reflected in the consolidated financial statements in accordance with IFRS of the PJSC “ROSSETI”, which is the deemed cost at 1 January 2010 as part of the transition to IFRS.

Functional 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 well as the currency in which these consolidated intermediate financial statements are submitted. All the numeric figures presented in rubles are rounded to the nearest thousand.

Going concern

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

As of September 30, 2017 the proficit of the current capital of the Group formed RUB 1 290 533 (as of December, 31, 2016 deficit of the current capital of the Group: RUB 7,195,429,000).

The Group controls the level of liquidity on a regular basis. Management monitors the timing of the estimated cash flows from operating and financial activities and manages current liquidity using open credit lines (see Note 12). In the 4th quarter of 2017 the Group plans obtain long-term bank credits at a cost of RUB 1 550 381.

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 could differ from those 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. Incurred reclassifications are unessential.

1. 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 interpretations of 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 1, 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 1, 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, 1, 2018 or after that date, early introduction is allowed). The new standard introduces the fundamental principle that revenue shall be recognized at the time the goods or services are transferred to the customer at the price of the transaction. 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.

1. **Subsidiaries**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  | Ownership share % |
| Subsidiary’s name | Principall activity | September 30,2017 |  | December 31,2016 |  | December 31,2015 |
| OJSC “Agriculture enterprise named after A. A. Grechko" | Agriculture | - | - | 100 |
| JSC "Agricultural Enterprise Sokolovskoye" | Agriculture | 100 | 100 | 100 |
| Energetik Holiday Home JSC | Health-improving services | 100 | 100 | 100 |
| Energy Service Company of the South JSC | Repairs and Maintenance | 100 | 100 | 100 |

1. **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.

1. **Operating segments**

The group identified four reportable segments - the Company's subsidiaries, described below, which constitute strategic business units of 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. The given transactions fail to meet requirements for distinguishing them as separate reporting segments neither for three and nine months ended om September, 30, 2017, nor for three and nine months ended on September, 30, 2016.

Undistributed indicators include the performance of the company's executive apparatus, which is not an operational segment in accordance with 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.

Segment reports are based on information prepared in accordance with Russian accounting principles, which is significantly different from the consolidated financial statements prepared in accordance with IFRS. 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.

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| Information on the reporting segments for the three months ended on September 30, 2017: |
|  |  |  | Electricity transmission |  |  |  |  |  |  |
|  | Astrakhanenergo |  | Volgogradenergo |  | Kalmenergo |  | Rostovenergo |  | Other |  | Total |
| Reporting segment revenues |  |  |  |  |  |  |
| Electricity transmission | 1 387 226 | 2 782 421 | 174,206 | 4 216 356 | - | 8 560 209 |
| Technological connection to the electricity networks | 43 522 | 13 306 | 183 | 26 578 | - | 83 589 |
| Electricity and capacity sale | - | - | 226,098 | - | - | 226,098 |
| Other revenues | 4 855 | 17815 | 4 468 | 38 225 | 70 305 | 135,668 |
| Revenues from sales between segments | - | - | - | 117 | - | 117 |
| Total revenue of the reporting segment | 1 435 603 | 2 813 542 | 404,955 | 4 281 276 | 70 305 | 9 005 681 |
| Profit/(loss) of the reporting segment before taxation | 152,536 | 817,700 | (231 167) | 759,364 | 12914 | 1 511 347 |
| Information on reporting segments for three months ended on September 30, 2016: |
|  |  |  | Electricity transmission |  |  |  |  |  |  |
|  | Astrakhanenergo |  | Volgogradenergo |  | Kalmenergo |  | Rostovenergo |  | Other |  | Total |
| Reporting segment revenues |  |  |  |  |  |  |
| Electricity transmission | 1 232 805 | 2 244 665 | 236,844 | 3 894 829 | - | 7 609 143 |
| Technological connection to the electricity networks | 12 400 | 5 323 | 58 | 73 462 | - | 91 243 |
| Other revenues | 5 609 | 11 764 | 4 619 | 16 790 | 66 663 | 105,445 |
| Revenues from sales between segments | - | - | - | 28 | - | 28 |
| Total revenue of the reporting segment | 1 250 814 | 2 261 752 | 241,521 | 3 985 109 | 66 663 | 7 805 859 |
| Profit/(loss) of the reporting segment before taxation | 160,303 | 220,849 | (251 860) | 514,821 | (6 953) | 637,160 |

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| Information on the reporting segments for the nine months ended on September 30, 2017: |
|  |  |  | Electricity transmission |  |  |  |  |  |  |
|  | Astrakhanenergo |  | Volgogradenergo |  | Kalmenergo |  | Rostovenergo |  | Other |  | Total |
| Reporting segment revenues |  |  |  |  |  |  |
| Electricity transmission | 3 683 895 | 7 731 563 | 477,656 | 12 353 406 | - | 24 246 520 |
| Technological connection to the electricity networks | 78 021 | 19 528 | 339 | 205,131 | - | 303,019 |
| Electricity and capacity sale | - | - | 609,615 | - | - | 609,615 |
| Other revenues | 20 588 | 33 867 | 13 368 | 293,856 | 123,465 | 485,144 |
| Revenues from sales between segments | - | - | - | 350 | - | 350 |
| Total revenue of the reporting segment | 3 782 504 | 7 784 958 | 1 100 978 | 12 852 743 | 123,465 | 25 644 648 |
| Loss/(profit) of the reporting segment before taxation | (348 380) | 1 990 048 | (1 013 464) | 908,187 | (2 904) | 1 533 487 |
| Information on the reporting segments for the nine months ended on September 30, 2016: |
|  |  |  | Electricity transmission |  |  |  |  |  |  |
|  | Astrakhanenergo |  | Volgogradenergo |  | Kalmenergo |  | Rostovenergo |  | Other |  | Total |
| Reporting segment revenues |  |  |  |  |  |  |
| Electricity transmission | 3 387 003 | 7 109 751 | 659,149 | 11 316 334 | - | 22 472 237 |
| Technological connection to the electricity networks | 26 547 | 16 832 | 152 | 123 975 | - | 167 506 |
| Other revenues | 20 973 | 32 678 | 13 109 | 49 065 | 120 704 | 236 529 |
| Revenues from sales between segments | - | - | - | 84 | - | 84 |
| Total revenue of the reporting segment | 3 434 523 | 7 159 261 | 672,410 | 11 489 458 | 120 704 | 22 876 356 |
| Loss/(profit) of the reporting segment before taxation | (751 747) | 1 331 042 | (1 137 608) | 473,846 | (25 987) | (110 454) |

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| Information on reporting segments as of September 30, 2017: |
|  |  |  | Electricity transmission |  |  |  |  |  |  |
|  | Astrakhanenergo | Volgogradenergo |  | Kalmenergo |  | Rostovenergo |  | Other |  | Total |
| Reporting segment assets | 7 086 339 |  | 13 227 825 | 3 173 956 | 19 167410 | 350,280 | 43 005 810 |
| Including fixed assets | 4 744 073 |  | 6 116910 | 2 553 051 | 15 031 934 | 236,656 | 28 682 624 |
|  |
| 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 |

A reconciliation linking the data reportable segment data according to IFRS

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | For three months ended on September 30 |  | For nine months ended on September 30 |
|  | 2017 |  | 2016 | 2017 |  | 2016 |
| Pre-tax profit/(loss) of reporting segments | 1 511 347 | 637,160 | 1 533 487 | (110 454) |
| Adjustment of the provision for receivables impairment | (73 109) | (41 530) | (298 743) | (41 530) |
| Adjustments of residual value of fixed assets | 128,596 | 111,968 | 398,382 | 304,732 |
| Admission of the employee benefits liabilities | (2 283) | (998) | (5 121) | (5 093) |
| Financial instrument discounting | 6 149 | 460 | 6 343 | 1 602 |
| Adjustment of prepaid expenses | 7 107 | (502) | 27 9?7 | 20416 |
| Other adjustments | 63 194 | (189 523) | 104,359 | (193 174) |
| Other unallocated amounts | 147 | - | 404 | - |
| Consolidated pre-tax profit/ (loss) | 1 641 148 | 517,035 | 1 766 838 | (23 501) |

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 September 30, 2017, the Group had two buyers: sales companies in two Russian regions with individual sales volumes exceeding 10% of the Group’s total revenues. Amount availed for three and nine months ended on September 30, 2017 according to the buyers equals RUB 2 371 692 and RUB 6 947 934 correspondingly (Rostovenergo) and RUB 1 209 925 and RUB 3 225 254 correspondingly (Astrakhanenergo).

For three and six months ended on September 30, 2016, the Group had two buyers: sales companies in two Russian regions with individual sales volumes exceeding 10% of the Group’s total revenues. Amount availed for three and nine months ended on September 30, 2016 according to the buyers equals RUB 2 221 394 and RUB 6 362 643 correspondingly (Rostovenergo) and RUB 1 054 124 and RUB 2 925 497 correspondingly (Astrakhanenergo).

1. Revenues

|  |  |  |  |
| --- | --- | --- | --- |
|  | For three months ended on September 30 |  | For nine months ended on September 30 |
|  | 2017 |  | 2016 | 2017 |  | 2016 |
| Electricity transmission | 8 560 209 | 7 609 143 | 24 246 520 | 22 472 237 |
| Electricity and capacity sale | 226,098 | - | 609,615 | - |
| Technological connection to power grids | 83 589 | 91 243 | 303,019 | 167 506 |
| Other revenues | 136,745 | 105,699 | 487,746 | 236,977 |
|  | 9 006 641 | 7 806 085 | 25 646 900 | 22 876 720 |

1. Income and expenditure

Operating costs

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For three months ended on September 30** |  | **For nine months ended on September 30** |
|  | **2017** |  | **2016** | **2017** |  | **2016** |
| **Production work and services, including** | **2 304 863** | **2 226 233** | **7 168 113** | **6 418 637** |
| Electricity transmission services | 2 219 722 | 2 157 668 | 6 988 312 | 6274 502 |
| Repair and maintenance services | 58 863 | 51 271 | 126,054 | 100,358 |
| Other production, maintenance and delivery works and services | 26278 | 17294 | 53 747 | 43 777 |
| Employees’ remuneration costs | 1 544 846 | 1 718 693 | 5 461 806 | 5 195 755 |
| **Material expenses, including** | **1 499 759** | **1 415 326** | **5 544 534** | **5 100 578** |
| Electricity in order to compensate process losses | 1017429 | 1 030 799 | 4 339 347 | 4 194 601 |
| Purchased electricity and heat for own needs | 26 554 | 26 195 | 166,658 | 150,985 |
| Purchased electricity and capacity for sales | 86183 | \_ | 235 352 | - |
| Other material expenses | 369,593 | 358 332 | 803 177 | 754 992 |
| **Depreciation** | **534,128** | **542,891** | **1 579 754** | **1 668 352** |
| **Other services of third-parties, including** | **179 709** | **167 736** | **554 420** | **464 850** |
| Consulting, legal and auditing services | 7 019 | 5 509 | 57 645 | 12 097 |
| Management services | 33 274 | 33 274 | 99 823 | 99 823 |
| Expenses related to the maintenance of property | 23 102 | 26287 | 85 748 | 86 574 |
| Security | 23 811 | 21 503 | 70 040 | 63 631 |
| Communications services | 19 903 | 19 893 | 58 167 | 55 985 |
| Transport services | 14 066 | 6 000 | 36 733 | 13 039 |
| The cost of software and support | 9 664 | 7 896 | 25 605 | 20 963 |
| Other services of third-parties, including | 48870 | 47 374 | 120 659 | 112 738 |
| Provisions | 13 865 | 3 478 | (63 685) | 827,242 |
| Penalties, fines, forfeits submitted to the Company for violation of contractual conditions | 512 969 | 334 121 | 1 315 509 | 812 926 |
| Taxes except profit tax | 102 150 | 116 064 | 312 144 | 306 820 |
| Lease | 24 760 | 53 392 | 73 650 | 155 566 |
| Travel expenses | 29 420 | 24 123 | 82 344 | 64 782 |
| Insurance | 15 179 | 15 074 | 45 136 | 45 192 |
| Other expenses | 87 725 | 479,481 | 1 043 158 | 1 092 180 |
|  | 7 149 373 | 7 096 612 | 23 116 883 | 22 152 880 |

For three and nine months ended on September 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 106 649 000 and RUB 351 978 000, Astrakhan Energy Sales Company PJSC, RUB 345 180 000, and RUB 611 209 000, TNS Energy Rostov-on-Don PJSC, RUB 11 916 000, and RUB 162 311, Energy JSC, RUB 0, and RUB 75 176 000, respectively (for three and nine months ended on September 30, 2016: RUB 257 599 000 and RUB 502 321 000, RUB 28 898 000 and RUB 162 750 000, RUB 3 000 and RUB 3 000, RUB 775 000 and RUB 31 886 000 respectively) through a court proceeding.

The structure of an other expenses reflects the losses of last years in the sum of RUB 65 658 000 and RUB 992 689 000 recognized in the reporting in three and nine months ended on September 30, 2017 respectively (in three and nine months ended on September 30, 2016: RUB 370 165 000 and RUB 949 088 000), including in accordance with the decisions of the court and settlement of disagreements with energy service companies.

Net other income

|  |  |  |  |
| --- | --- | --- | --- |
|  | **For three months ended on 30th of September** |  | **For nine months ended on 30th of September** |
|  | **2017** |  | **2016** | **2017** |  | **2016** |
| Reversal of the receivables impairment reserve | 41 645 | 356 250 | 136 683 | 489 354 |
| Penalties and fine | 264 641 | 136 462 | 922 155 | 705 835 |
| Income from reimbursement of costs at the court judgment | - | - | 40 367 | - |
| Compensation for insured events | 15 711 | 3 385 | 38 631 | 18 060 |
| The revealed non-contractual electric energy consumption | 6 397 | 3 298 | 14 044 | 20 701 |
| Write-off of trade and other accounts payable | 1 458 | 1 159 | 2 608 | 4 140 |
| Donated assets, including surplus | 18 306 | 655 | 19617 | 2 924 |
| Income/(loss) from retirement of capital assets | 4 900 | (1 147} | 2718 | (3 794) |
| Governmental subsidies | - | - | 94 | 1 844 |
|  | **353,058** | **500,062** | **1 176 917** | **1 239 064** |

For three and nine months ended on September 30, 2017, penalties and fines included the income recognized at the court judgment under contracts with Astrakhan Power Sales Company PJSC – RUB 131 833 000 and RUB 288 296 000), TNS Energo Rostov-on-Don PJSC – RUB 49 985 000 and RUB 102 550 000, Volgogradenergosbyt PJSC – RUB 0 and RUB 333 414 000, respectively (for three and nine months ended on September 30, 2016 RUB 65 488 000 and RUB 129 376 000, RUB 32 042 000 and RUB 32 042 000, RUB 0 and RUB 371 531 000.

1. Fixed assets

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Real estates and buildings |  | Power grids |  | Transformersubstation |  | 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 | 21 905 | 985,782 | 1 008 408 |
| Commissioning | 41 668 | 186615 | 147,932 | 88 232 | (464 447) | ~ |
| Withdrawals | (2 660) | (6 346) | (1 200) | (25 524) | (39 301) | (75 031) |
| Balance as of September 30, 2016 | 3 133 300 | 19 201 886 | 12 281 682 | 6 436 808 | 2 925 902 | 43 979 578 |
| Balance on 1 of January, 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 | (366 066) | 278,982 | - | - |
| Receipts | 354 | 16 551 | 1 184 | 24 873 | 1 856 808 | 1 899 770 |
| Commissioning | 322,107 | 840,693 | 669,017 | 184,586 | (2 016 403) | - |
| Withdrawals | (3 127) | (16 169) | (13 048) | (16 772) | (22 578) | (71 694) |
| Balance as of September 30, 2017 | 3 461 300 | 20 783 687 | 12 706 067 | 6 864 732 | 3 144 926 | 1. 60 712
 |

9 Property, Plant and Equipment (continued)

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Real estates and buildings |  | Power grids |  | Transformersubstation |  | Other |  | Construction in progress |  | Total |
| Depreciation and impairment losses |  |  |  |  |  |  |
| 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 | (97 410) | (700 292) | (502 626) | (355 796) | - | (1 656 124) |
| Introduction and composition of fixed assets | (49) | (5 154) | (1 325) | - | 6 528 | - |
| Withdrawals | 1 948 | 5 449 | 803 | 15 308 | - | 23 508 |
| Balance as of September 30, 2016 | (1 394 066) | (11 386 079) | (6 533 549) | (4 429 024) | (6 334) | (23 749 052) |
| Balance on 1 of January, 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) | 335,694 | (266 006) | - | - |
| Accrued for the period | (96 512) | (656 244) | (487 521) | (312 833) | - | (1 553 90) |
| Introduction and composition of fixed assets | (3) | (284) | (180) | (68) | 535 | - |
| Withdrawals | 3 015 | 11 475 | 8 901 | 15 047 | 193 | 38 631 |
| Balance as of September 30, 2017 | (1 624 771) | (12 543 957) | (6 901 855) | (4 991 914) | (8 835) | (26 071 332) |
| Residual value |  |  |  |  |  |  |
| Balance as at 1 January 2016 | 1 795 737 | 8 275 962 | 6 163 457 | 2 263 603 | 2 431 006 | 20 929 765 |
| Balance as of September 30, 2016 | 1 739 234 | 7 815 807 | 5 748 133 | 2 007 784 | 2 919 568 | 20 230 526 |
| Balance on 1 of January, 2017 | 1 654 396 | 7 982 611 | 5 656 231 | 1 965 009 | 3 317 536 | 20 575 783 |
| Balance as of September 30, 2017 | 1 836 529 | 8 239 730 | 5 804 212 | 1 872 818 | 3 136 091 | 20 889 380 |

1. Equity

The Share Capital

As of September 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 4 August, 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, within the framework of this right, shareholders contributed to the authorized capital of the Company 143,909 thousand rubles. Until the moment of the state registration of changes in the Company's charter capital, the contribution in total of 143,909 thousand rubles was recognized as a reserve for the issue of shares directly in equity as of December 31, 2016. After the expiration of the term of the right of preemptive acquisition of the Company's shares within the open subscription until March 31, 2017, 992,795 thousand rubles were contributed to the authorized capital of the Company. 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 4 981 110 000).

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 September 30, 2017, as part of exercising this right, the parent company contributed RUB 786,025,000 to the Company’s share capital, the other shareholders RUB 67,000. By the moment of the state registration of changes in the Company's charter capital, the contribution in total of RUB 786,092,000 was recognized as a reserve for the issue of shares directly in equity as of September 30, 2016.

Retained earnings 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.

At the annual General Meeting of Shareholders of the Company held on June 6, 2016, it was decided to pay dividends in the amount of RUB 142,096,000 (RUB 0.002852693 per one ordinary share of the Company) for the year 2015. As of December 31, 2016, RUB 140,378,000 dividends were paid. During nine months ended on September 30, 2017, the Company paid dividends in total RUB 46,000. As of September 30, 2017, dividends payable in the amount of RUB 1,766,000 are reflected in the Consolidated Statement of Financial Position of the Group as part of trade and other payables (as of December 31, 2016: RUB 1,812,000).

1. Earnings per share

The indicator of profits/losses per share is calculated on the basis of profits/losses for the period and the number of ordinary shares in circulation. The Company does not have potential ordinary shares with a dilutive effect, respectively diluted profit/loss per share is equal to the base profit/loss.

|  |  |  |  |
| --- | --- | --- | --- |
|  | For three months ended on 30th of September |  | For nine months ended on 30th of September |
|  | 2017 |  | 2016 | 2017 |  | 2016 |
| Weighted average number of ordinary shares for the period (‘000 pcs) | 68 779 788 | 49 811 096 | 61 640 848 | 49 811 096 |
| Profit/(loss) due to the Company’s owners | 1 578 255 | 271,107 | 1 460 699 | (6 954) |
| Profit/(loss) per share (RUB) - base and diluted | 0.023 | 0.005 | 0.024 | (0,0001) |

1. Borrowings

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | 30 of September, 2017 |  | 31 of December, 2016 |
| Long-term loans and borrowings |  |  |
| Insecure bank credits | 19 981 750 | 17 882 022 |
| Issued unsecured bonds | 5 000 000 | 5 000 000 |
|  | 24 981 750 | 22 882 022 |
| After deduction of the current maturity of long-term loans and borrowings | (5 589 700) | (5 650 000) |
|  | 19 392 050 | 17 232 022 |
|  |  |  |
| Short-term loans and current portion of long-term loans and credits |  |  |
| Insecure bank credits | - | 1 528 109 |
| Interest on bank credits | 8 225 | 10312 |
| Insecure third parties’ loans | 1 500 |  |
| Interest on outstanding bonds | 98 707 | 35 140 |
| Current maturity of long-term loans and borrowings | 5 589 700 | 5 650 000 |
|  | 5 698 132 | 7 223 561 |

Terms and schedule of loans and borrowings payments:

**Long-term loans and borrowings**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Effective interest rate |  |  |  | 30 of September, 2017 |  | 31 of December, 2016 |
| Lender’s/loaner's name | 30 of September, 2017 |  | 31 of December, 2016 | Year of repayment | Face value |  | Book value | Face value |  | Book value |
| Insecure bank credits |  |  |  |  |  |  |  |
| Gazprombank JSC\* | Russian Central Bank key rate +0.80% | 11,00%, | 2 019 | 1 842 322 | 1 842 322 | 1 342 322 | 1 342 322 |
| Gazprombank JSC\* | 9,80% | 10.80% | 2019-2020 | 2 500 000 | 2 500 000 | 1 500 000 | 1 500 000 |
| Sberbank PJSC\* | - | 12,50%) | 2018 | - | - | 2 804 700 | 2 804 700 |
| Sberbank PJSC\* | 9,80%) | 11,25- 12,45%. | 2018-2019 | 3 800 000 | 3 800 000 | 6 585 000 | 6 585 000 |
| JSC "AB "RUSSIA" | 9,80% | - | 2 020 | 4 249 728 | 4 249 728 | - | - |
| VBRR Bank JSC | 9,54% | - | 2 020 | 2 000 000 | 2 000 000 | - | - |
|  |  |  |  | 14 392 050 | 14 392 050 | 12 232 022 | 12 232 022 |
| Bond issues |  |  |  |  |  |  |  |
| Bond issue\*\* | 9.24%) | 13,50%. | 2 022 | 5 000 000 | 5 000 000 | 5 000 000 | 5 000 000 |
|  |  |  |  | 5 000 000 | 5 000 000 | 5 000 000 | 5 000 000 |
|  |  |  |  | 19 392 050 | 19 392 050 | 17 232 022 | 17 232 022 |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Effective interest rate |  |  |  | 30 of September, 2017 |  | 31 of December, 2016 |
| Lender’s/loaner's name | 30 of September, 2017 |  | 31 of December, 2016 | Year of repayment | Face value |  | Book value | Face value |  | Book value |
| Insecure bank credits of Sberbank PJSC\* |  |  | 11,81% | 2017 | \_ |  | 1 528 109 | 1 528 109 |
|  |  |  |  |  | - | - | 1 528 109 | 1 528 109 |
| Insecure third parties’ loansSole Ent. Nechayevko Andey Vladimirovich |  |  |  | 2017 | 1 500 | 1 500 |  |  |
|  |  |  |  |  | 1 500 | 1 500 | - | - |
| Interests on loan against bonds\*\* | \_ |  | \_ |  | 98 707 | 98 707 | 35 140 | 35 140 |
| Interests on unsecured bank loans | - |  | - | - | 8 225 | 8 225 | 10312 | 10312 |
|  |  |  |  |  | 106,932 | 106,932 | 45 452 | 45 452 |
| Current maturity of long-term loans and borrowings |  |  |  |  |  |  |  |  |
| Sberbank PJSC\* | 9,80% |  | - | 2018 | 5 589 700 | 5 589 700 | - | - |
| Sberbank PJSC\* | - |  | 9,39- 11,85% | 2017 | - | - | 5 650 000 | 5 650 000 |
|  |  |  |  |  | 5 589 700 | 5 589 700 | 5 650 000 | 5 650 000 |
|  |  |  |  |  | 5 698 132 | 5 698 132 | 7 223 561 | 7 223 561 |

\* — Credits obtained 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 September 30, 2017, and December 31, 2016, the Company complied with all limiting circumstances.

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

1. Provisions

|  |  |  |  |
| --- | --- | --- | --- |
|  | For nine months ended on 30 of September, 2017 |  | For nine months ended on 30 of September, 2016 |
| Start-of-period balance | 1 020 375 | 1 935 907 |
| Provisions accrued for the period | 95 619 | 1 321 215 |
| Change in assessments for the period | (159 304) | (493 973) |
| The use of the reserve for the period | (671 461) | (1 228 192) |
| End-of-year balance | 285,229 | 1 534 957 |

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.

1. 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 September 30, 2017, and as of December 31, 2016, is close to their book value.

1. Capital liabilities

As of September 30, 2017, the amount of total liabilities under contracts involving purchase and construction of fixed assets is RUB 2,522,362,000, net of VAT (December 31, 2016: RUB 3,258,096,000).

1. 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 one of the parties on a number of court proceedings initiated in the course of its economic activities. 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.

Tax contingencies

The tax system of the Russian Federation continues to evolve and is characterized by frequent changes in legislative norms, official explanations and court decisions, at times vaguely stated and contradictory, which allows their ambiguous interpretation by various tax authorities. Audits and investigations in respect of taxes are several regulatory bodies entitled to impose significant fines and penalties. 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. Recently, the practice in the Russian Federation is such that the tax authorities take a more assertive position in terms of interpretation and compliance with tax laws.

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. However, the interpretation of these regulations the relevant authorities may be different and, if they can prove the legitimacy of their position, it can have a significant impact on these consolidated interim condensed financial statements.

Environmental liabilities

The Company and its predecessors carried out electricity transmission in the Russian Federation for many years. The environmental legislation in the Russian Federation is at the stage of reform and the actions of government authorities is continually being revised. The Company regularly assesses its environmental liabilities.

Potential liabilities that may arise as a result of changes in legislation and regulation or civil disputes, valued as of the entry into force of the amended legislation. 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 September 30, 2017 and December 31, 2016, the Group does not have any guarantees.

1. **Related party transactions**

Control relationships

As of September 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 September 30** |  | **For nine months ended on September 30** |  | **Book value** |
|  | **2017** |  | **2016** |  | **2017** |  | **2016** |  | **30 of September, 2017** |  | **31 of December, 2016** |
| **Parent company** |  |  |  |  |  |  |  |  |  |  |  |
| Lease | 410 |  | 410 |  | 1 230 |  | 1 230 |  | - |  | - |
| Other revenues and income | \_ |  | \_ |  | 31 314 |  | 85 |  | \_ |  | 346,251 |
| **The enterprises are under common control of the parent company** |
| Revenues from electricity transmission | 1 16 532 |  | 121,296 |  | 316,893 |  | 337,583 |  | 137,723 |  | 86 979 |
| Lease | 2 204 |  | 6 389 |  | 6 497 |  | 19019 |  | 680 |  | 36 462 |
| Revenues from other services | 18 981 |  | 233 |  | 19301 |  | 388 |  | 24 927 |  | 59 657 |
|  | **138,127** |  | **128,308** |  | **375,235** |  | **358,305** |  | **163,330** |  | **529,349** |

**Expense**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **For three months ended on September 30** |  | **For nine months ended on September 30** |  | **Book value** |
|  | **2017** |  | **2016** | **2017** |  | **2016** | **30 of September, 2017** |  | **31 of December, 2016** |
| **Parent company** Management services | 33 274 | 33 274 | 99 823 | 99 823 | 15 705 | 7 853 |
| Technical Authority | 7 134 | 10 848 | 21 402 | 25 116 | 3 045 | 1 522 |
| Bond issue and interest | 95 078 | 163,837 | 387,254 | 488,248 | 5 098 707 | 5 035 140 |
| Other services | 1 343 | - | 3 923 | - | - | - |
| **The enterprises are under common control of the parent company** |
| Electricity transmission | 1 589 259 |  | 1 728 585 |  | 5 112 830 |  | 4915 371 |  | 5 734 792 |  | 6 235 184 |
| Electricity purchased to make up for losses | 53 036 | 38 332 | 169,846 | 140,093 |  |  |
| Lease | 1 340 | 1 342 | 4 085 | 4011 | 277 | 277 |
| Other | 126,226 | 64 383 | 353,454 | 323,470 | 449,479 | 902,907 |
|  | **1 906 690** | **2 040 601** | **6 152 617** | **5 996 132** | **11 302 005** | **12 182 883** |

As of September 30, 2017, the balance of prepayments given to related parties came to RUB 16,855,000 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 adopted a decision on dividend payment for the year 2015, the amount of dividends attributable to the parent company amounted to RUB 73,402,000. As of September 30, 2017 and December 31, 2016, there is no debt to the parent company for the payment of dividends.

Transactions with key management personnel

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 ended on September 30** |  | **For nine months ended on September 30** |
|  | **2017** |  | **2016** | **2017** |  | **2016** |
| Salaries and bonuses | 42 086 | 28 221 | 99 927 | 110,960 |

The amount of remuneration to key management personnel disclosed in the table represent the costs of the current period to key management personnel recognized as expenses on employee benefits.

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

**Operations with state-affiliated companies**

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

In its operating activities, the Group enters into transactions with companies affiliated 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 September 30, 2017, amounted to 23% and 23%, respectively (for three and nine months that ended on September 30, 2016: 13% and 13%) of total revenues of the Group, including 22% and 22% (for three and nine months ended on September 30, 2016: 13% 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 on September 30, 2017, amounted to 10% and 7%, respectively (for three and six months that ended on September 30, 2016: 11% 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.

1. Events after the reporting date

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 September 30, 2017, were signed.