Report on Review of Interim Financial Information

Public joint stock company "Interregional Distribution Grid Company of North-West" and its subsidiaries

for the three and six months ended 30 June 2018

August 2018

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Report on Review of Interim Financial Information

To the shareholders and Board of Directors of
Public joint stock company
"Interregional Distribution Grid Company of North-West"

Introduction

We have reviewed the accompanying consolidated interim condensed financial statements of Public joint stock company "Interregional Distribution Grid Company of North-West" and its subsidiaries, which comprise the consolidated interim condensed statement of financial position as at 30 June 2018, the consolidated interim condensed statement of profit or loss and other comprehensive income for the three and six months then ended, consolidated interim condensed statement of cash flows, consolidated interim condensed statement of changes in equity for the six months then ended, and selected explanatory notes (interim financial information). Management of Public joint stock company "Interregional Distribution Grid Company of North-West" is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Совершенствуя бизнес,
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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Other matters

The financial statements of the Public joint stock company "Interregional Distribution Grid Company of North-West" and its subsidiaries for 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 15 March 2018.

The interim condensed financial statements of the Public joint stock company "Interregional Distribution Grid Company of North-West" and its subsidiaries as at 30 June 2017 and for the three and six months then ended were not reviewed.

A.Y. Grebeniuk
Branch Director of
Ernst & Young LLC, St. Petersburg

22 August 2018

Details of the entity

Name: Public joint stock company "Interregional Distribution Grid Company of North-West"
Record made in the State Register of Legal Entities on 23 December 2004, State Registration Number 1047855175785.
Address: Russia 196247, St. Petersburg, Constitution square, 3, lit. A, room 16N.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

(in thousand of Russian rubles, unless otherwise stated)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2018	**2017**	**2018**	**2017**
Revenue	7	15,892,345	11,030,655	32,283,431	24,121,137
Operating expenses	9	(15,449,202)	(11,148,009)	(30,503,824)	(23,006,070)
Other income, net	8	152,377	257,866	437,956	518,186
Results from operating activities		**595,520**	**140,512**	**2,217,563**	**1,633,253**
Finance income	10	22,402	20,050	47,593	78,595
Finance costs	10	(301,103)	(396,548)	(672,658)	(806,113)
Total finance income/(costs)		**(278,701)**	**(376,498)**	**(625,065)**	**(727,518)**
Profit before tax		**316,819**	**(235,986)**	**1,592,498**	**905,735**
Income tax expense		(74,407)	23,122	(412,091)	(224,784)
Profit for the period		**242,412**	**(212,864)**	**1,180,407**	**680,951**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Net change in fair value of available-for-sale financial assets		–	(2,156)	–	(2,186)
Income tax		–	437	–	443
Total items that may be reclassified subsequently to profit or loss		–	**(1,719)**	–	**(1,743)**
Items that will never be reclassified subsequently to profit or loss					
Change in the fair value equity investments measured at fair value through other comprehensive income		(2,439)	–	(2,768)	–
Remeasurements of the defined benefit liability		100,011	3,493	28,579	(17,044)
Income tax related to items that will never be reclassified subsequently to profit or loss		(19,514)	(698)	(5,162)	3,409
Total items that will not be reclassified subsequently to profit or loss		**78,058**	**2,795**	**20,649**	**(13,635)**
Other comprehensive loss for the period, net of income tax		**78,058**	**1,076**	**20,649**	**(15,378)**
Total comprehensive income for the period		**320,470**	**(211,788)**	**1,201,056**	**665,573**
Profit/(loss) attributable to:					
Owners of the Company		242,418	(212,871)	1,180,420	680,967
Non-controlling interest		(6)	7	(13)	(16)
Total comprehensive income/(loss) attributable to:					
Owners of the Company		320,476	(211,795)	1,201,069	665,589
Non-controlling interest		(6)	7	(13)	(16)
Earnings per share	17	**0.0025**	**(0.0022)**	**0.0123**	**0.0071**

Basic and diluted earnings per ordinary share (in RUB)

These Consolidated Interim Condensed Financial Statements were approved by management on 22 August 2018 and were signed on its behalf by:

Acting Director General

D.A. Orlov

Chief Accountant – Head of Department of accounting and tax accounting and reporting

I.G. Zhdanova

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

(in thousand of Russian rubles, unless otherwise stated)

	Notes	30 June 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	11	38,545,660	37,267,819
Intangible assets	12	224,997	206,972
Trade and other receivables	14	206,449	146,169
Assets related to employee benefits plans		401,026	414,244
Financial investments	13	487,960	472,667
Deferred tax assets		11,448	10,258
Total non-current assets		**39,877,540**	**38,518,129**
Current assets			
Inventories		1,248,810	785,535
Income tax prepayments		84,261	2,111
Trade and other receivables	14	8,771,669	8,990,103
Cash and cash equivalents	15	106,729	84,471
Total current assets		**10,211,469**	**9,862,220**
Total assets		**50,089,009**	**48,380,349**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	9,578,592	9,578,592
Reserve related to business combination	16	10,457,284	10,457,284
Other reserves		14,410	(6,239)
Accumulated loss		(611,007)	(1,792,510)
Total equity attributable to owners of the Company		**19,439,279**	**18,237,127**
Non-controlling interest		309	322
Total equity		**19,439,588**	**18,237,449**
Non-current liabilities			
Loans and borrowings	18	10,020,117	8,522,335
Trade and other payables	19	1,444,354	1,049,082
Employee benefit liabilities		2,073,955	2,116,145
Deferred tax liabilities		877,244	884,362
Total non-current liabilities		**14,415,670**	**12,571,924**
Current liabilities			
Loans and borrowings	18	3,529,339	5,811,561
Trade and other payables	19	12,704,412	11,611,538
Provisions		–	27,363
Current income tax liabilities		–	120,514
Total current liabilities		**16,233,751**	**17,570,976**
Total liabilities		**30,649,421**	**30,142,900**
Total equity and liabilities		**50,089,009**	**48,380,349**

(in thousand of Russian rubles, unless otherwise stated)

	Notes	Six months ended 30 June 2018	Six months ended 30 June 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**1,180,407**	**680,951**
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets	9	2,145,779	2,055,778
Finance costs	10	672,658	806,113
Finance income	10	(47,593)	(78,595)
Loss/(gain) on disposal of property, plant and equipment		2,241	(3,006)
Expected credit loss	9	389,744	388,503
Accounts receivable write-off		1,589	33,549
Gain from property, plant and equipment received free of charge		(2,433)	(2,666)
Accounts payable write-off		(1,968)	(2,728)
Other non-cash transactions		(2,648)	53,735
Income tax expense		412,091	224,784
Total effect of adjustments		**4,749,867**	**4,156,418**
Change in financial assets related to employee benefits plans		13,218	–
Change in Employee benefit liabilities		(88,709)	(2,205)
Cash flows from operating activities before changes in working capital and provisions		**4,674,376**	**4,154,213**
Changes in working capital			
Change in trade and other receivables (less expected credit loss)		(163,909)	1,002,330
Change in inventories (less provision for impairment of inventories)		(465,760)	(321,533)
Change in trade and other payables		2,188,997	(1,303,010)
Change in provisions		(22,230)	(10,792)
Other		2,076	(67,382)
Cash flows from operating activities before income tax and interest paid		**6,213,550**	**3,453,826**
Income tax paid		(628,073)	(546,383)
Interest paid		(665,191)	(766,293)
Net cash from operating activities		**4,920,286**	**2,141,150**

(in thousand of Russian rubles, unless otherwise stated)

	Notes	Six months ended 30 June 2018	Six months ended 30 June 2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(4,165,275)	(2,319,367)
Proceeds from the sale of property, plant and equipment and intangible assets		177	144
Interest received		5,296	5,356
Net cash used in investing activities		**(4,159,802)**	**(2,313,867)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings	18	30,273,649	28,362,088
Repayment of loans and borrowings	18	(31,011,313)	(28,323,193)
Dividends paid		–	(131)
Repayment of finance lease liabilities		(562)	–
Net cash used in financing activities		**(738,226)**	**38,764**
Net increase in cash and cash equivalents		22,258	(133,953)
Cash and cash equivalents at the year beginning		84,471	361,619
Cash and cash equivalents at the year end	15	**106,729**	**227,666**

(in thousand of Russian rubles, unless otherwise stated)

	Equity attributable to owners of the Company						
	Share capital	**Reserve related to business combination**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2017	**9,578,592**	**10,457,284**	**255,684**	**490,891**	**20,782,451**	**347**	**20,782,798**
Profit/(loss) for the period	–	–	–	680,967	**680,967**	(16)	**680,951**
Other comprehensive loss	–	–	(19,230)	–	**(19,230)**	–	**(19,230)**
Income tax related to other comprehensive loss	–	–	3,852	–	**3,852**	–	**3,852**
Total comprehensive income/(loss) for the period	–	–	**(15,378)**	**680,967**	**665,589**	**(16)**	**665,573**
Dividends to shareholders (Note 16)	–	–	–	(111,188)	**(111,188)**	–	**(111,188)**
Balance at 30 June 2017	**9,578,592**	**10,457,284**	**240,306**	**1,060,670**	**21,336,852**	**331**	**21,337,183**

	Share capital	**Reserve related to business combination**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2018	**9,578,592**	**10,457,284**	**(6,239)**	**(1,792,510)**	**18,237,127**	**322**	**18,237,449**
Profit/(loss) for the period	–	–	–	1,180,420	**1,180,420**	(13)	**1,180,407**
Other comprehensive loss	–	–	25,811	–	**25,811**	–	**25,811**
Income tax related to other comprehensive loss	–	–	(5,162)	–	**(5,162)**	–	**(5,162)**
Total comprehensive income/(loss) for the period	–	–	**20,649**	**1,180,420**	**1,201,069**	**(13)**	**1,201,056**
Unclaimed dividends	**–**	**–**	**–**	**1,083**	**1,083**	**–**	**1,083**
Balance at 30 June 2018	**9,578,592**	**10,457,284**	**14,410**	**(611,007)**	**19,439,279**	**309**	**19,439,588**

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

1 Background

(a) The Group and its operations

Public Joint Stock Company Interregional Distribution Grid Company of North-West (hereinafter referred to as PJSC "IDGC of North-West" or the "Company") was established in December 2004 in accordance with the laws of the Russian Federation. The Company was formed as a result of re-organization of OJSC RAO "UES of Russia" ("RAO UES") as the owner and operator of the electric power transmission and distribution grid in the North-West Region of Russia.

On 27 April 2007 the Board of Directors of RAO UES approved the structure of the Interregional Distribution Grid Companies. Under the approved structure, the IDGC of North-West was incorporated with IDGC of North-West and seven branches, located in Arkhangelsk, Vologda, Syktyvkar, Novgorod, Pskov, Petrozavodsk and Murmansk and subsidiaries (the "Group"). The principal subsidiaries are listed in Note 5.

The branches were formed on the basis of seven Regional Distribution Grid Companies: OJSC "Arkhenergo", OJSC "Vologdaenergo", OJSC "AEK Komienergo", OJSC "Novgorodenergo" OJSC "Pskovenergo", OJSC "Karelenergo", OJSC "Kolenergo", all of which were subsidiaries of RAO UES prior to the formation of the Group. The merger was a business combination among entities under common control, and has been accounted for using the predecessor accounting method.

The primary activities of PJSC IDGC of North-West and its subsidiaries (hereinafter jointly referred to as the "Group") are provision of services for transmission and distribution of electricity for power grids, as well as the provision of services for technological connection of consumers to the network and sale of electricity to end customers in the territory of North-West Region of Russia.

The parent company is PJSC "ROSSETI".

The registered office (location) of the Company is Constitution Square 3, lit. "A", room 16N, Saint Petersburg, 196247.

(b) Russian business environment

The Group's operations are located in the Russian Federation.

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

The future economic development of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

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

(c) Relations with state

The Russian Government, through the Federal Agency for the Management of State Property, is the ultimate controlling party of the Company.

As at 30 June 2018, the Russian Government owned 88.04% in the share capital of the parent company PJSC "ROSSETI" including 88.89% of the voting ordinary shares and 7.01% of the preference shares (as at 31 December 2017: 88.04%, including 88.89% of the voting ordinary shares and 7.01% of the preference shares).

The Russian Government directly affects the Group's operations through tariffs regulations. In accordance with the Russian legislation, the Group's tariffs are regulated by executive authorities of the constituent entities of the Russian Federation in the field of state regulation of tariffs. The consumers of the Group's services include a large number of enterprises under state control.

As at 22 December 2017 the Ministry of Energy of the Russian Federation assigned the Company with the status of guaranteeing electric power supplier function in Arkhangelsk region of the service area of PJSC "Arkhangelsk Energy Retail Company" effective from 1 January 2018. The status of guaranteeing electric power supplier was assigned until announcing the winner of the tender in respect of specified service areas, but not more than for the period of 12 months.

As at 23 March 2018 the Ministry of Energy of the Russian Federation assigned the Company with the status of guaranteeing electric power supplier function in Vologda region of the service area of PJSC "Vologda Energy Retail Company" effective from 1 April 2018. The status of guaranteeing electric power supplier was assigned until announcing the winner of the tender in respect of specified service areas, but not more than for the period of 12 months.

2 Basis of preparation of consolidated financial statements

(a) Statement of compliance

These Consolidated Interim Condensed Financial Statements for the three months ended 30 June 2018 has been prepared in accordance with IAS 34, Interim Financial Reporting. It does not include all of the information required for the full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2017.

(b) Use of professional judgments and estimates

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

In preparing these consolidated interim condensed financial statements significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements as of and for the year ended 31 December 2017.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Change in presentation

Reclassification of comparatives

The Group changed presentation of certain items in the comparative financial statements to comply with the current period presentation. The format of reporting was changed for the purpose of better transparency and information comparability. All reclassifications are immaterial.

3 Significant accounting policies

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2017, except for the effect of adopted new standards as described below.

The following new standards were adopted by the Group starting from the annual period beginning on 1 January 2018:

(a) IFRS 15 «Revenue from Contracts with Customers»

The Group recognises revenue when (or as) it satisfies performance obligation by transferring promised good or service to a customer. Revenue is measured at the fair value of the consideration received or a portion thereof, to the extent that the Group expects to recover in exchange for the transfer of the pledged assets to the customer, excluding any amounts received from third parties (e.g., net of recoverable taxes).

Electricity distribution and sales of electricity

Revenue from distribution and sales of electricity is recognized during the period (settlement month) and is estimated by the output method (cost of transferred electricity volumes). The tariffs for the distribution of electricity (in respect to all regions of the Russian Federation) and sale of electricity on the regulated market (in respect of regions of the Russian Federation, not included in the price zones of the wholesale electricity market) are approved by the executive authorities of the regions of the Russian Federation (hereinafter - regional regulatory authority) in the sphere of the state energy tariff regulation within the range of cap and (or) floor tariffs approved by the Federal Antimonopoly Service of the Russian Federation.

Services for technological connection to electric grids

Recognition of revenue from this type of service is made at the time of the beginning of electricity supply and connection of the consumer to the power grid on the basis of the act on the completion of technological connection. In cases where under the terms of the contracts technological connection to power grids is performed in stages, revenue is recognized upon completion of stages of services.

The Group made judgment that connection service is a separate performance obligation that is recognised when the respective services are provided. The customer obtains distinct connection service and there is no any other promises beyond the connection services agreement. Practically and in accordance with the law on electricity market, connection services and electricity transmission agreements are negotiated separately with different customers as different packages and with different commercial objectives with no relation in the contracts in pricing, purpose, acceptance, or type of service.

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

The Group applied judgment that technological connection is a separate obligation to perform that is recognised when the services are provided. The technological connection contract does not contain any further obligations after the provision of the connection service. According to established practice and laws regulating electricity market, technological connection and electricity transfer are subject to separate negotiations with different consumers as different services with different commercial purposes without connection in pricing, intentions, recognition or types of services.

Other revenue

Revenue from installation, repair and maintenance services and other sales is recognized when the customer obtains control over the asset.

In accordance with the transition provisions in IFRS 15, the Group elected to apply IFRS 15 retrospectively with cumulative effect of initially applying a Standard to be recognized as an adjustment to retained earnings as at 1 January 2018. The application of the standard had no material impact on the Group's consolidated interim condensed financial statements and therefore the retained earnings as at 1 January 2018 were not restated.

(b) IFRS 9 «Financial instruments»

The standard introduces new requirements for classification and measurement of financial instruments, impairment, and hedge accounting. As the Group does not apply hedge accounting, the main changes relevant to the Group impacted its accounting policies for classification financial instruments and impairment of financial assets.

According to IFRS 9, the financial assets are classified in the following measurement categories: those to be measured subsequently at amortized cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The classification depends on the business model for managing financial assets and contractual terms of the cash flows.

(in thousand of Russian rubles, unless otherwise stated)

Financial assets are classified at amortized cost only if both of the following criteria are met: the asset is held within a business model with the objective of collecting the contractual cash flows, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In respect of impairment, IFRS 9 replaced the "incurred loss" model used in IAS 39, Financial instruments: Recognition and Measurement, with a new "expected credit loss" ("ECL") model that requires a more timely recognition of expected credit losses. An allowance for expected credit losses shall be recorded for financial assets classified as at amortized cost.

Under IFRS 9, loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument. For trade receivables, the Group measures loss allowances applying a simplified approach at amount equal to lifetime ECLs. For other financial assets classified as at amortized cost, including some shareholder's loans provided loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

In accordance with the transition provisions in IFRS 9, the Group applied the new rules retrospectively, except for the items that have already been derecognized at the date of initial application, which is 1 January 2018. The Group also used an exemption in IFRS 9 allowing not to restate prior periods presented as a result of adoption of the new classification and measurement requirements, but rather recognize any differences in the opening retained earnings as at 1 January 2018. The initial application of the standard did not result in any material changes of the Group's financial instruments measurement.

On 1 January 2018 the Group has assessed which business models apply to the financial assets held at the date of initial application of IFRS 9 "Financial instruments" and has classified its financial instruments onto appropriate IFRS 9 categories. The main effects resulting from those reclassification are as follows:

		Reclassification of financial assets as at 1 January 2018			
	Balance as at 1 January 2018 under IAS 39	Carried at fair value through profit or loss	Carried at fair value through other comprehensive income	Carried at amortized cost	**Balance as at 1 January 2018 under IFRS 9**
Financial assets available-for-sale	14,898	–	(14,898)	–	–
Financial assets held to maturity	457,769	–	–	(457,769)	–
At fair value through profit or loss	–	–	–	–	–
At fair value through other comprehensive income	–	–	14,898	–	14,898
At amortised cost	–	–	–	457,769	457,769
Total:	**472,667**	–	–	–	**472,667**

The impact of the changes on the Group's equity (net of tax) was as follows:

(in thousand of Russian rubles, unless otherwise stated)

	Effect on available-for-sale reserve	Effect on measured at fair value through other comprehensive income reserves	Effect on retained earnings/(accumulated loss)
Opening balance at 1 January 2018 - IAS 39	**7,711**	–	–
Reclassification of investments from available-for-sale into measured at fair value through other comprehensive income	(7,711)	7,711	–
Total impact	**(7,711)**	**7,711**	–
Opening balance at 1 January 2018 - IFRS 9	–	**7,711**	–

The table below reflects the original measurement category according to IAS 39 and the new measurement category according to IFRS 9:

	Measurement category		Carrying amount		
	IAS 39	**IFRS 9**	**IAS 39**	**IFRS 9**	**Difference**
Non-current financial assets					
Financial investments, including: Equity shares	*Available for sale*	*Measured at fair value through other comprehensive income*	14,898	14,898	–
Deposits with maturity of more than 12 months and promissory notes	*Held to maturity*	*Amortised cost*	457,769	457,769	–
Trade and other receivables, loans given	*Amortised cost*	*Amortised cost*	146,169	146,169	–
Current financial assets					
Trade and other receivables, loans given	*Amortised cost*	*Amortised cost*	8,990,103	8,990,103	–
Cash and cash equivalents			84,471	84,471	–
Non-current and current financial liabilities					
Loans and borrowings, trade and other payables	*Amortised cost*	*Amortised cost*	26,994,516	26,994,516	–

The following new standards and interpretations, which are effective as at 1 January 2018, had no impact on the Group's consolidated interim condensed financial statements:

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Transfers of Investment Property (Amendments to IAS 40).
- Annual Improvements to IFRSs 2014-2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

The following new standards and interpretations that are mandatory for the annual periods beginning on or after 1 January 2019, and which the Group has not early adopted:

(in thousand of Russian rubles, unless otherwise stated)

IFRS 16 Leases. The standard was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). The Group intends to apply both exemptions. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The Group will be required to recognize separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group is considering the implication of this standard for its consolidated financial statements

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- IFRIC 23 Uncertainty over Income Tax Treatments
- IFRS 17 Insurance Contracts

4 Measurement of fair values

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

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

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

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

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

5 Significant subsidiaries

	Country of incorporation	30 June 2018 Ownership/voting shares, %	31 December 2017 Ownership/voting shares, %
OJSC Pskovenergosbyt	Russian Federation	100	100
OJSC Pskovenergoagent	Russian Federation	100	100
OJSC Energoservice North-West	Russian Federation	100	100
OJSC Lesnaya Skazka	Russian Federation	98*	98*

* Non-controlling interest of subsidiary OJSC Lesnaya skazka is not significant (2%) that is why it is not disclosed in these consolidated financial statements.

6 Information about segments

The Management Board of PJSC IDGC of North-West has been determined as the chief operating decision maker.

The Group's primary activity is the provision of services for electricity transmission and distribution, technological connection to electricity grids and sale of electricity to end customers in the territory of North-West Region of the Russian Federation.

The internal management reporting system is based on segments (branches formed on a territorial basis) related to transmission and distribution of electricity, technological connection to electricity grids and sale of electricity to end customers in the territory of North-West Region of the Russian Federation.

Revenue indicators, EBITDA are used to reflect the performance of each reportable segment, since they are included in internal management reporting prepared on the basis of RAS reporting data and are regularly analyzed and evaluated by the Management Board. EBITDA is calculated as profit or loss before interest expenses, taxation and depreciation and amortization. The Management Board believes that these indicators are most relevant when assessing the performance of certain segments in relation to other segments and other companies that operate in these industries.

In accordance with the requirements of IFRS 8 the following reportable segments were identified based on segment revenue, EBITDA and the total assets reported to the Management Board:

- Electricity Transmission Segments – Arkhenergo, Vologdaenergo, Karelenergo, Kolenergo, Komienergo, Novgorodenergo and Pskovenergo;
- Energy Retail Segment – Pskovenergosbyt, Arkhenergo, Vologdaenergo;
- Other Segments – other Group companies.

Unallocated items comprise corporate balances of the Company's headquarters, which do not constitute an operating segment under IFRS 8 requirements.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those used in the consolidated financial statements prepared under IFRSs. The reconciliation of reportable segment measurements reported to the Management Board with the similar items in these consolidated financial statements includes those reclassifications and adjustments that are necessary for the financial statements to be presented in accordance with IFRS.

Capital expenditure represents total investments made during the year in acquisition of property, plant and equipment, including advances given and acquisition of construction materials.

(in thousand of Russian rubles, unless otherwise stated)

(i) Information about reportable segments

For the three months ended 30 June 2018:

	Electricity Transmission							Energy Retail						
	Arkhenergo	**Vologda-energo**	**Karel-energo**	**Kol-energo**	**Komi-energo**	**Novgorod-energo**	**Pskov-energo**	**Arkh-energo**	**Vologda-energo**	**Kol-energo**	**Pskov-energosbyt**	**Other**	**Unallocated items**	**Total**
Revenue from external customers	893,069	1,314,039	1,589,960	1,771,802	1,797,492	1,135,187	210,626	2,715,794	2,849,139	–	1,612,049	3,188	–	15,892,345
Inter-segment revenue	–	–	13	–	–	1	777,561	–	–	–	92,473	80,335	–	950,383
Segment revenue	**893,069**	**1,314,039**	**1,589,973**	**1,771,802**	**1,797,492**	**1,135,188**	**988,187**	**2,715,794**	**2,849,139**	–	**1,704,522**	**83,523**	–	**16,842,728**
Including								–						
Electricity transmission	870,445	1,293,490	1,544,555	1,761,037	1,719,219	1,069,698	973,305		–	–	–	–	–	9,231,749
Connection services	6,349	6,671	3,408	5,822	65,381	2,805	4,011	–	–	–	–	–	–	94,447
Resale of electricity	–	–	–	–	–	–	–	2,715,794	2,849,139	–	1,615,613	–	–	7,180,546
Other revenue	16,275	13,878	42,010	4,943	12,892	62,685	10,871	–	–	–	88,909	83,523	–	335,986
EBITDA	**366,233**	**353,866**	**223,583**	**168,668**	**319,496**	**199,317**	**108,559**	**(119,224)**	–	–	**11,738**	**7,049**	**2,129**	**1,641,414**

For the three months ended 30 June 2017:

	Electricity Transmission							Energy Retail						
	Arkhenergo	**Vologda-energo**	**Karel-energo**	**Kol-energo**	**Komi-energo**	**Novgorod-energo**	**Pskov-energo**	**Arkh-energo**	**Vologda-energo**	**Kol-energo**	**Pskov-energosbyt**	**Other**	**Unallocated items**	**Total**
Revenue from external customers	1,291,647	1,702,287	1,915,722	1,688,506	1,615,500	1,027,591	269,017	–	–	–	1,519,985	402	–	11,030,655
Inter-segment revenue	–	–	13	–	–	–	706,860	–	–	–	85,113	78,041	–	870,027
Segment revenue	**1,291,647**	**1,702,287**	**1,915,735**	**1,688,506**	**1,615,500**	**1,027,591**	**975,877**	–	–		**1,605,098**	**78,443**		**11,900,682**
Including														
Electricity transmission	1,181,320	1,664,116	1,856,121	1,671,758	1,576,891	1,013,774	963,980	–	–	–	–	–	–	9,927,960
Connection services	28,783	20,971	22,886	10,878	23,945	6,503	3,664	–	–	–	–	–	–	117,630
Resale of electricity	–	–	–	–	–	–	–	–	–	–	1,595,816	–	–	1,595,816
Other revenue	81,544	17,200	36,727	5,870	14,663	7,313	8,233				9,282	78,443	–	259,276
EBITDA	**131,534**	**391,023**	**139,324**	**3,474**	**91,682**	**296,237**	**170,268**	–	–	–	**11,673**	**1,011**	**2,670**	**1,238,896**

(in thousand of Russian rubles, unless otherwise stated)

For the six months ended 30 June 2018:

	Electricity Transmission							Energy Retail						
	Arkhenergo	**Vologda-energo**	**Karel-energo**	**Kol-energo**	**Komi-energo**	**Novgorod-energo**	**Pskov-energo**	**Arkh-energo**	**Vologda-energo**	**Kol-energo**	**Pskov-energosbyt**	**Other**	**Unallocated items**	**Total**
Revenue from external customers	2,029,225	3,223,942	3,642,033	3,962,590	3,868,351	2,388,818	470,308	6,216,896	2,849,139	–	3,627,906	4,223	–	32,283,431
Inter-segment revenue	–	–	26	–	–	3	1,773,501	–	–	–	302,015	167,415	–	2,242,960
Segment revenue	**2,029,225**	**3,223,942**	**3,642,059**	**3,962,590**	**3,868,351**	**2,388,821**	**2,243,809**	**6,216,896**	**2,849,139**	–	**3,929,921**	**171,638**	–	**34,526,391**
Including														
Electricity transmission	1,958,816	3,174,441	3,551,839	3,944,894	3,763,900	2,308,917	2,216,453	–	–	–	–	–	–	20,919,260
Connection services	39,950	16,017	6,331	6,804	78,854	7,916	9,572	–	–	–	–	–	–	165,444
Resale of electricity	–	–	–	–	–	–	–	6,216,896	2,849,139	–	3,646,852	–	–	12,712,887
Other revenue	30,459	33,484	83,889	10,892	25,597	71,988	17,784	–	–	–	283,069	171,638	–	728,800
EBITDA	**1,006,337**	**709,016**	**376,534**	**600,226**	**769,451**	**466,211**	**357,575**	**(27,321)**	–	–	**27,260**	**2,693**	**3,824**	**4,291,805**

For the six months ended 30 June 2017:

	Electricity Transmission							Energy Retail						
	Arkhenergo	**Vologda-energo**	**Karel-energo**	**Kol-energo**	**Komi-energo**	**Novgorod-energo**	**Pskov-energo**	**Arkh-energo**	**Vologda-energo**	**Kol-energo**	**Pskov-energosbyt**	**Other**	**Unallocated items**	**Total**
Revenue from external customers	2,842,335	3,640,240	4,094,488	3,626,836	3,864,537	2,190,814	618,674	–	–	–	3,241,403	1,813	–	24,121,137
Inter-segment revenue	–	–	26	–	–	–	1,519,931	–	–	–	266,211	156,766	–	1,942,934
Segment revenue	**2,842,335**	**3,640,240**	**4,094,514**	**3,626,836**	**3,864,537**	**2,190,814**	**2,138,605**	–	–	–	**3,507,614**	**158,576**	–	**26,064,071**
Including														
Electricity transmission	2,621,477	3,579,819	3,986,197	3,601,436	3,462,491	2,168,708	2,112,233	–	–	–	–	–	–	21,532,361
Connection services	52,112	26,356	25,933	13,633	373,433	8,627	10,399	–	–	–	–	–	–	510,493
Resale of electricity	–	–	–	–	–	–	–	–	–	–	3,498,332	–	–	3,498,332
Other revenue	168,746	34,065	82,384	11,767	28,613	13,479	15,973	–	–	–	9,282	158,576	–	522,885
EBITDA	**416,045**	**1,005,392**	**387,962**	**248,410**	**659,094**	**631,264**	**433,729**	–	–	–	**20,122**	**3,621**	**5,107**	**3,810,745**

(in thousand of Russian rubles, unless otherwise stated)

As at 30 June 2018:

	Electricity Transmission							Energy Retail						
	Arkh-energo	Vologda-energo	Karel-energo	Kol-energo	Komi-energo	Novgorod-energo	Pskov-energo	Arkh-energo	Vologda-energo	Kol-energo	Pskov-energosbyt	Other	Unallocated items	Total
Segment assets	5,826,471	10,487,420	4,402,578	4,600,047	13,918,564	7,601,452	5,195,807	797,349	842,779	2,003	875,383	77,201	2,272,980	56,900,034
Including property, plant and equipment and construction in progress	**4,175,492**	**8,922,211**	**3,475,247**	**3,727,904**	**12,472,153**	**6,068,317**	**4,522,605**	–	–	–	**57**	**16,409**	**38,334**	**43,418,729**

As at 30 June 2017:

	Electricity Transmission							Energy Retail						
	Arkh-energo	Vologda-energo	Karel-energo	Kol-energo	Komi-energo	Novgorod-energo	Pskov-energo	Arkh-energo	Vologda-energo	Kol-energo	Pskov-energosbyt	Other	Unallocated items	Total
Segment assets	5,881,081	11,123,167	4,595,851	4,965,217	13,070,203	7,060,220	5,143,816	–	–	215	1,007,457	75,809	2,111,337	55,034,373
Including property, plant and equipment and construction in progress	**4,167,836**	**9,176,591**	**3,484,616**	**3,825,902**	**11,819,062**	**5,265,790**	**4,573,633**	–	–	–	**71**	**13,989**	**28,628**	**42,356,118**

(in thousand of Russian rubles, unless otherwise stated)

(ii) Reconciliation of reportable segment EBITDA

Reconciliation of reportable segment EBITDA is presented below:

	Three months ended 30 June		Six months ended 30 June	
	2018	**2017**	**2018**	**2017**
EBITDA of reportable segments	**1,641,414**	**1,238,896**	**4,291,805**	**3,810,745**
Discounting of receivables	102	3,229	436	6,437
Adjustment for expected credit loss	1,350	–	2,686	–
Adjustment for finance lease	918	–	1,837	–
Recognition of pension and other long-term employee benefit obligation	(49,248)	(22,198)	(13,217)	(1,303)
Adjustment for assets related to employee benefits	38,948	(7,999)	13,611	(5,493)
Adjustment for available-for-sale financial assets	2,458	2,129	2,830	2,107
Adjustment for value of property, plant and equipment	(1,659)	4,853	(2,056)	2,264
Other adjustments	20,338	(65,345)	37,437	(118,079)
EBITDA	**1,654,621**	**1,153,565**	**4,335,369**	**3,696,678**
Depreciation and amortization	(1,072,977)	(1,027,214)	(2,145,779)	(2,055,778)
Interest expenses on financial liabilities	(264,202)	(362,337)	(595,817)	(735,165)
Interest expenses on finance lease liabilities	(623)	–	(1,275)	–
Income tax expense	(74,407)	23,122	(412,091)	(224,784)
Profit/(loss) for the period per consolidated interim condensed statement of profit or loss and other comprehensive income	**242,412**	**(212,864)**	**1,180,407**	**680,951**

7 Revenue

	Three months ended 30 June		Six months ended 30 June	
	2018	**2017**	**2018**	**2017**
Electricity transmission	8,456,439	9,221,100	19,149,354	20,012,430
Sales of electricity and capacity	7,173,741	1,510,703	12,684,846	3,232,121
Technological connection services	94,446	117,630	165,443	510,493
Other revenue	167,719	181,222	283,788	366,093
	15,892,345	**11,030,655**	**32,283,431**	**24,121,137**

Other revenues are mainly comprised of rental income, revenue from services for repair and maintenance of electricity network equipment.

(in thousand of Russian rubles, unless otherwise stated)

8 Other income, net

	Three months ended 30 June		Six months ended 30 June	
	2018	**2017**	**2018**	**2017**
Income from identified non-contracted electricity consumption	18,539	19,265	29,901	27,376
Income in the form of fines and penalties on commercial contracts	131,868	230,289	398,614	477,469
Gain/(loss) on disposal of property, plant and equipment	(4,475)	1,348	(2,241)	3,006
Insurance reimbursement, net	4,006	2,347	6,929	3,845
Accounts payable write-off	635	2,520	1,968	2,728
Gain from property, plant and equipment and inventories received free of charge	1,567	1,860	2,433	3,387
Other income, net	237	237	352	375
	152,377	**257,866**	**437,956**	**518,186**

9 Operating expenses

	Three months ended 30 June		Six months ended 30 June	
	2018	**2017**	**2018**	**2017**
Personnel costs	3,317,819	2,975,453	6,747,595	6,039,744
Depreciation and amortization (Notes 11, 12)	1,072,977	1,027,215	2,145,779	2,055,778
Material expenses, including:				
Electricity for compensation of losses	697,967	818,234	2,285,300	2,243,728
Electricity for sale	4,424,390	825,347	7,738,626	1,865,608
Purchased electricity and heat power for own needs	45,452	51,581	160,928	158,716
Other material costs	649,754	522,059	1,141,896	931,560
Production work and services, including:				
Electricity transmission services	3,898,708	3,576,360	7,705,243	7,552,663
Repair and maintenance services	253,407	226,701	398,169	291,438
Other production works and services	46,151	103,382	70,677	120,024
Taxes and charges other than income tax	174,310	132,476	349,823	265,675
Rent	73,756	43,698	185,852	85,396
Insurance	15,879	15,879	31,400	31,568
Other third-party services, including:				
Communication services	44,905	25,294	78,435	55,885
Security services	64,853	56,124	128,721	111,705
Consulting, legal and audit services	9,067	4,827	40,123	25,164
Software costs and servicing	13,840	26,378	29,099	37,177
Transportation services	42,618	36,332	85,226	65,059
Other services	179,508	116,130	277,775	222,894
Expected credit loss	158,108	285,665	389,744	388,503
Provisions	–	21,267	(5,133)	21,323
Other expenses	265,733	257,607	518,546	436,462
	15,449,202	**11,148,009**	**30,503,824**	**23,006,070**

(in thousand of Russian rubles, unless otherwise stated)

10 Finance income and costs

	Three months ended 30 June		Six months ended 30 June	
Recognized in profit or loss	**2018**	**2017**	**2018**	**2017**
Finance income				
Interest income on loans, bank deposits, promissory notes and balances in bank accounts	12,297	8,291	28,113	17,710
Gain from disposal of available-for-sale financial assets	–	549	–	2,489
Gain from recovery of impairment of financial assets measured at amortised cost	9,144	–	18,062	–
Dividends receivable	536	–	536	–
Interest income on assets related to employee benefits	–	(399)	–	35,028
Amortization of discount on financial assets	425	3,334	882	7,022
Other finance income	–	8,275	–	16,346
	22,402	**20,050**	**47,593**	**78,595**
Finance costs				
Interest expenses on financial liabilities measured at amortized cost	(264,202)	(362,337)	(595,817)	(735,165)
Interest expenses on finance lease liabilities	(623)	–	(1,275)	–
Interest expenses on long-term employee benefit obligation	(35,943)	(34,084)	(75,098)	(70,319)
Effect from initial discounting of financial assets	(335)	(127)	(468)	(629)
	(301,103)	**(396,548)**	**(672,658)**	**(806,113)**

11 Property, plant and equipment

	Land and buildings	**Electricity transmission networks**	**Equipment for electricity transmission**	**Other PPE**	**Construction in progress**	**Total**
Cost/Deemed cost						
At 1 January 2017	**7,581,813**	**32,299,046**	**17,702,840**	**7,821,378**	**1,812,631**	**67,217,708**
Additions	23,201	431,930	97,117	105,199	1,374,148	2,031,595
Disposals	(793)	(3,248)	(1,614)	(10,576)	(470,983)	(487 214)
At 30 June 2017	**7,604,221**	**32,727,728**	**17,798,343**	**7,916,001**	**2,715,796**	**68,762,089**
Accumulated depreciation and impairment						
At 1 January 2017	**(2,837,232)**	**(17,184,799)**	**(7,119,344)**	**(4,759,794)**	**(98,036)**	**(31,999,205)**
Transfer of impairment losses upon commissioning assets into operation	(57)	(4,424)	(1,151)	(3,708)	9,340	–
Depreciation charge	(164,484)	(928,573)	(536,787)	(377,200)	–	(2,007,044)
Disposals	680	1,899	1,572	10,236	172	14,559
At 30 June 2017	**(3,001,093)**	**(18,115,898)**	**(7,655,709)**	**(5,130,466)**	**(88,524)**	**(33,991,690)**
Net book value						
At 1 January 2017	**4,744,580**	**15,114,248**	**10,583,497**	**3,061,584**	**1,714,595**	**35,218,505**
At 30 June 2017	**4,603,128**	**14,611,831**	**10,142,634**	**2,785,534**	**2,627,272**	**34,770,399**

(in thousand of Russian rubles, unless otherwise stated)

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other PPE	Construction in progress	Total
Cost/Deemed cost						
At 1 January 2018	**8,093,551**	**34,321,494**	**19,426,865**	**8,897,815**	**2,503,125**	**73,242,850**
Reclassification between groups	(845)	(731)	156	1,420	–	–
Additions	–	–	–	–	3,439,527	3,439,527
Transfer	12,266	526,801	158,022	377,885	(1,074,974)	–
Disposals	(2,728)	(1,999)	(6,268)	(10,830)	(65,610)	(87,435)
At 30 June 2018	**8,102,244**	**34,845,565**	**19,578,775**	**9,266,290**	**4,802,068**	**76,594,942**
Accumulated depreciation and impairment						
At 1 January 2018	**(3,169,387)**	**(19,057,560)**	**(8,187,611)**	**(5,501,647)**	**(58,826)**	**(35,975,031)**
Reclassification between groups	5	722	(89)	(638)	–	–
Transfer of impairment losses upon commissioning assets into operation	(3)	(649)	(234)	(4)	890	–
Depreciation charge	(170,110)	(934,438)	(573,341)	(413,194)	–	(2,091,083)
Disposals	1,172	1,439	3,502	10,559	160	16,832
At 30 June 2018	**(3,338,323)**	**(19,990,486)**	**(8,757,773)**	**(5,904,924)**	**(57,776)**	**(38,049,282)**
Net book value						
At 1 January 2018	**4,924,164**	**15,263,934**	**11,239,254**	**3,396,168**	**2,444,299**	**37,267,819**
At 30 June 2018	**4,763,921**	**14,855,079**	**10,821,002**	**3,361,366**	**4,744,292**	**38,545,660**

Capitalized interest for the three month ended 30 June 2018 amounted to RUB 21,885 thousand (for the three month ended 30 June 2017: RUB 22,281 thousand), with capitalization rate used to calculate borrowing costs to be capitalized during the period of 6.0% - 6.8% (for 2016: 7.3% - 8.3%).

The depreciation charge for the three month ended 30 June 2018 of RUB 890 thousand (for the three month ended 30 June 2017: RUB 9,340 thousand) has been capitalized to the cost of the capital construction objects.

12 Intangible assets

	Software	Certificates, licenses and patents	Other intangible assets	Total intangible assets
Initial cost				
At 1 January 2017	298,790	28,686	13,797	341,273
Additions	3,769	365	(322)	3,812
Disposals	(9,458)	(982)	–	(10,440)
At 30 June 2017	**293,101**	**28,069**	**13,475**	**334,645**

(in thousand of Russian rubles, unless otherwise stated)

	Software	Certificates, licenses and patents	Other intangible assets	Total intangible assets
Accumulated amortization and impairment				
At 1 January 2017	(161,075)	(15,427)	(1,789)	(178,291)
Amortization charge	(45,232)	(3,201)	(176)	(48,609)
Disposals	9,377	980	–	10,357
At 30 June 2017	**(196,930)**	**(17,648)**	**(1,965)**	**(216,543)**
Net book value				
At 1 January 2017	**137,715**	**13,259**	**12,008**	**162,982**
At 30 June 2017	**96,171**	**10,421**	**11,510**	**118,102**
Initial cost				
At 1 January 2018	328,914	28,344	54,307	411,565
Additions	63,906	2,849	6,101	72,856
Disposals	(4,268)	–	–	(4,268)
At 30 June 2018	**388,552**	**31,193**	**60,408**	**480,153**
Accumulated amortization and impairment				
At 1 January 2018	(184,480)	(18,020)	(2,093)	(204,593)
Amortization charge	(51,100)	(3,426)	(170)	(54,696)
Disposals	4,133	–	–	4,133
At 30 June 2018	**(231,447)**	**(21,446)**	**(2,263)**	**(255,156)**
Net book value				
At 1 January 2018	**144,434**	**10,324**	**52,214**	**206,972**
At 30 June 2018	**157,105**	**9,747**	**58,145**	**224,997**

13 Financial investments

	30 June 2018	31 December 2017
Non-current		
Financial assets measured at fair value through other comprehensive income	12,129	–
Financial assets measured amortized cost	475,831	–
Available-for-sale financial assets	–	14,898
Financial assets held to maturity	–	457,769
	487,960	**472,667**

As at 30 June 2018 financial assets measured amortised cost are represented by deposits placed in OJSC "Bank Tavrichesky" ("The Bank") of RUB 2,080,000 thousand at the rate of 0.51% per annum with maturity on 12 April 2035. (as at 31 December 2017: RUB 2,080,000 thousand).

At the beginning of 2015 to the Bank Tavrichesky was initiated bailouts process. Major creditors of the Bank: PJSC "Lenenergo" and PJSC "IDGC of North-West" as agreed to participate in the reorganization and financial rehabilitation of the Bank, providing co-funding as referred to below. ASV allocated 28 billion roubles received from the bank of Russia with maturity of 10 years to facilitate the Bank financial restructuring. In accordance with the plan of restructuring part of JSC "IDGC of North-West" deposit (including accrued interest for the use of the deposit) in the Bank was replaced with a 20 years subordinated deposit of 2,080,000 thousands roubles with an interest payable on a quarterly basis at a rate of 0.51% per annum.

(in thousand of Russian rubles, unless otherwise stated)

Currently, the Bank operates on a routine basis, providing a full range of services to the customers, including settlements and payments on a timely basis.

As at 30 June 2018 the financial investments (subordinated deposit) are measured at their fair value. The fair value of the Group's financial investment is defined as the amount of economic benefits that the Group expects to receive from these financial investments under normal operating conditions.

In the consolidated financial statements the Group made an allowance for impairment of financial investments (the Bank deposit) equalling the difference between their historical cost and fair value. The fair value of financial investments was determined using the method of discounting of long-term deposit taking into consideration industry, market, financial and other risks, including investment risk. As at 30 June 2018, the allowance amounted to 1,604,169 thousand roubles (at 31 December 2017: 1,622,231 thousand roubles).

The Group recognized deferred tax asset on provision for impairment loss of financial investments in accordance with IAS 12 Income Taxes. As at 30 June 2018 the amount of this deferred tax asset was 320,834 thousand roubles (as at 31 December 2017: 337,580 thousand roubles).

	Interest rate	Rating	Rating agency	30 June 2018	31 December 2017
Bank	0.51%	R	Standard & Poor's	475,831	457,769

14 Trade and other receivables

	30 June 2018	31 December 2017
Non-current trade and other accounts receivable		
Trade receivables	4,746	5,026
Other receivables	8,170	8,474
Advances given	11,972	12,340
VAT on advances from customers and clients	181,561	120,329
	206,449	**146,169**
Current trade and other accounts receivable		
Trade receivables	13,862,710	13,831,446
Trade receivables expected credit loss	(7,148,400)	(6,854,567)
Other receivables	1,244,588	1,356,721
Other receivables expected credit loss	(583,697)	(564,840)
Advances given	214,925	218,253
Advances given expected credit loss	(14,410)	(14,410)
VAT recoverable	370,958	987,495
VAT on advances from customers and clients	811,019	4,757
Prepaid taxes, other than income tax and VAT	13,976	25,248
	8,771,669	**8,990,103**

Balances with related parties are disclosed in Note 23.

(in thousand of Russian rubles, unless otherwise stated)

15 Cash and cash equivalents

	30 June 2018	31 December 2017
Cash at bank and in hand	105,679	82,471
Cash equivalents	1,050	2,000
	106,729	**84,471**

	Rating	Rating agency	30 June 2018	31 December 2017
JSC «AB «Rossiya»	Ba2	Moody's Investors Service	15,606	731
PJSC «ROSBANK»	ruAAA	Expert RA	9,587	35
JSC «ALFA-BANK»	AA(RU)	AKRA	52	–
Federal Treasury *	–	–	3,585	3,654
JSC «Gazprombank» *	Ba2	Moody's Investors Service	55,916	39,705
PJSC «VTB Bank» *	Ba1	Moody's Investors Service	4,252	5,565
PJSC «Sberbank of Russia» *	Ba1	Moody's Investors Service	14,396	31,679
Cash in hand			2,285	1,102
			105,679	**82,471**

*Government-related banks

Cash equivalents consist of short-term bank deposits:

	Interest rate	Rating	Rating agency	30 June 2018	31 December 2017
PJSC «Sberbank of Russia»*	4.59	Ba1	Moody's Investors Service	1,050	2,000

*Government-related banks

As at 30 June 2018 and 31 December 2017 all cash and cash equivalents balances are denominated in roubles.

16 Share capital

	Ordinary shares	
	30 June 2018	31 December 2017
Par value (RUB)	0.1	0.1
On issue at 1 January	95,785,923,138	95,785,923,138
On issue at end of period, fully paid	**95,785,923,138**	**95,785,923,138**

Reserve related to business combination

The Group was formed in 2008 as a result of the combination of a number of businesses under common control. The carrying value of the net assets of the businesses contributed were determined based on as amounts recorded in the IFRS financial statements of the predecessor, rather than the fair values of those net assets. The difference between the value of the share capital issued and the IFRS carrying values of the contributed net assets and non-controlling interests was recorded as a common control combination reserve within equity.

(in thousand of Russian rubles, unless otherwise stated)

Dividends

At the end of 2017, dividends were not declared (at the end of 2016: the amount of declared dividends amounted to RUB 111,188 thousand).

Dividends in the amount of RUB 1,083 thousand have been recovered into retained earnings as at 30 June 2018 after expiration of three years period of limitation due to absence of requisites in the shareholders register (as at 30 June 2017: RUB 16 thousand).

17 Earnings per share

The calculation of basic earnings per share for the three and six month ended 30 June 2018 and 2017 is presented below.

The Company has no dilutive financial instruments.

	Three months ended 30 June		Six months ended 30 June	
	2018	**2017**	**2018**	**2017**
Ordinary shares at 1 January	95,785,923,138	95,785,923,138	95,785,923,138	95,785,923,138
Weighted average number of shares for the three months ended 30 June	**95,785,923,138**	**95,785,923,138**	**95,785,923,138**	**95,785,923,138**

	Three months ended 30 June		Six months ended 30 June	
	2018	**2017**	**2018**	**2017**
Weighted average number of ordinary shares outstanding, for the period ended 30 June (shares)	95,785,923,138	95,785,923,138	95,785,923,138	95,785,923,138
Earnings for the period attributable to holders of ordinary shares	242,418	(212,871)	1,180,420	680,967
Earnings per ordinary share (in RUB) – basic and diluted	**0.0025**	**(0.0022)**	**0.0123**	**0.0071**

18 Loans and borrowings

	30 June 2018	**31 December 2017**
Non-current liabilities		
Unsecured loans and borrowings	11,000,000	13,500,000
Finance lease liabilities	26,746	27,308
Less: current portion of long-term finance lease liabilities	(6,629)	(4,973)
Less: current portion of long-term loans and borrowings	(1,000,000)	(5,000,000)
	10,020,117	**8,522,335**
Current liabilities		
Unsecured loans and borrowings	2,522,710	806,588
Current portion of long-term finance lease liabilities	6,629	4,973
Current portion of long-term loans and borrowings	1,000,000	5,000,000
	3,529,339	**5,811,561**
Including:		
Interests payable on loans and borrowings	20,887	16,052
	20,887	**16,052**

(in thousand of Russian rubles, unless otherwise stated)

As at 30 June 2018 and 31 December 2017 all balances of loans and borrowings are denominated in rubles.

The Group raised the following bank loans during the 6 months ended 30 June 2018:

	Year of maturity	Effective interest rate	Carrying value
Unsecured loans and borrowings			
Unsecured bank loans *	2018	10.65%	335,000
Unsecured bank loans	2018	5.75%-9.05%	465,000
Unsecured bank loans *	2018-2021	7.49%-9.15%	27,773,649
Unsecured bank loans *	2019-2020	7.5%-7.85%	1,700,000
			30,273,649

*Loans and borrowings received from state-related companies

The Group repaid the following significant bank facilities during the six months ended 30 June 2018 (including prematurely):

	Amount
Loans and borrowings received from state-related companies	30,666,313
Other loans and borrowings	345,000
	31,011,313

19 Trade and other payables

	30 June 2018	31 December 2017
Non-current accounts payable		
Other payables	254,397	260,532
Advances from customers	1,189,957	788,550
	1,444,354	**1,049,082**
Current accounts payable		
Trade payables	4,422,710	4,321,776
Other payables and accrued expenses	609,569	713,907
Payables to employees	1,086,045	939,256
Dividends payable	6,689	7,833
Advances from customers	5,304,928	4,712,383
	11,429,941	**10,695,155**
Taxes payable		
Value-added tax	759,083	514,362
Property tax	158,545	109,531
Social security contributions	264,427	197,942
Other taxes payable	92,416	94,548
	1,274,471	**916,383**
	12,704,412	**11,611,538**

(in thousand of Russian rubles, unless otherwise stated)

Non-current advances from customers mainly relates to technological connection services contracts in the amount of RUB 1,153,191 thousand as at 30 June 2018 (as at 31 December 2017: RUB 754,769 thousand).

20 Financial risk and capital management

The Croup's financial risk and capital management objectives and policies and the assumptions made in measuring fair values are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2017.

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

		30 June 2018		**Level of fair value hierarchy**		
	Note.	**Carrying amount**	**Fair value**	**1**	**2**	**3**
Loans given and receivables	14	7,388,212	7,388,212	–	–	7,388,212
Financial assets measured amortised cost	13	475,830	475,830	–	–	475,830
Financial assets measured at fair value through other comprehensive income	13	12,130	12,130	10,597	–	1,533
Cash and cash equivalents	15	106,729	106,729	106,729	–	–
Current and non-current loans and borrowings	18	(13,549,456)	(13,173,069)	–	–	(13,173,069)
Trade and other payables	19	(6,379,410)	(6,379,410)	–	–	(6,379,410)
		(11,945,965)	**(11,569,578)**	**117,326**	–	**(11,686,904)**

		31 December 2017		**Level of fair value hierarchy**		
	Note.	**Carrying amount**	**Fair value**	**1**	**2**	**3**
Loans given and receivables	14	7,781,801	7,781,801	–	–	7,781,801
Financial assets measured amortised cost	13	14,896	14,896	13,365	–	1,531
Financial assets measured at fair value through other comprehensive income	13	457,771	457,771	–	–	457,771
Cash and cash equivalents	15	84,471	84,471	84,471	–	–
Current and non-current loans and borrowings	18	(14,333,896)	(14,015,573)	–	–	(14,015,573)
Trade and other payables	19	(6,243,262)	(6,243,262)	–	–	(6,243,262)
		(12,238,219)	**(11,919,896)**	**97,836**	**–**	**(12,017,732)**

The interest rate used to discount the expected future cash flows for long-term and short-term loans and borrowings for the purpose of determining the fair value disclosed as at 30 June 2018 was 8,46% (as at 31 December 2017: 9.65%).

During three months ended 30 June 2018 there were no transfers between the levels of the fair value hierarchy.

The reconciliation of financial assets measured at fair value through other comprehensive income as at the beginning and end of period is presented below (the Group has no financial assets measured fair value through profit or loss):

(in thousand of Russian rubles, unless otherwise stated)

	Financial assets measured at fair value through other comprehensive income
As at 1 January 2018	14,898
Change in fair value recognized through other comprehensive income	(2,768)
As at 30 June 2018	**12,130**

As at 30 June 2018, the available limit on the Group's open but unused credit lines amounted to RUB 13,708,177 thousand (31 December 2017: RUB 13,120,513 thousand). The Group is able to raise additional funding within the respective limits, including to ensure the performance of its short-term obligations.

21 Capital commitments

As at 30 June 2018 the Group has outstanding commitments under contracts for the purchase and construction of property plant and equipment items for RUB 4,935,055 thousand including VAT (as at 31 December 2017: RUB 3,540,697 thousand including VAT).

22 Contingencies

(a) Insurance

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

(b) Taxation contingencies

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

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

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

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

(in thousand of Russian rubles, unless otherwise stated)

(c) Legal proceedings

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

(d) Environmental matters

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

23 Related party transactions

(a) Control relationships

Related parties are shareholders affiliates and entities under common ownership and control of the Group members of the Board of Directors and key management personnel of the Company. The Company's parent as at 30 June 2018 and 31 December 2017 was PJSC ROSSETI. The ultimate controlling party is the state represented by the Federal Property Management Agency, which held the majority of the voting rights of PJSC "ROSSETI".

(b) Transactions with the parent its subsidiaries and associates

Transactions with the Parent its subsidiaries and associates include transactions with PJSC "ROSSETI" its subsidiaries and associates:

	Amount of transaction for the period ended 30June				Carrying amount	
	2018	**2017**	**2018**	**2017**	**30 June 2018**	**31 December 2017**
Revenue, Net other income, Finance income						
The parent company						
Other revenue	307	307	615	615	–	–
Dividends receivable	–	61,576	–	61,576	–	–
Entities under common control of the parent company						
Technological connection services	–	85	–	85	–	–
Sales of electricity	248	–	276	–	–	–
Other revenue	2,169	1,325	4,199	1,592	24,358	22,720
Other operating income	2,150	180	2,150	180	–	–
	4,874	**63,473**	**7,240**	**64,048**	**24,358**	**22,720**

(in thousand of Russian rubles, unless otherwise stated)

			Amount of transaction for the period ended 30 June		Carrying amount	
	2018	2017	2018	2017	30 June 2018	31 December 2017
Operating expenses, Finance costs						
The parent company						
Consulting legal and audit services	31,196	48,739	60,023	99,214	20,642	11,381
Other production works and services	7,104	–	14,207	–	–	–
Entities under common control of the parent company						
Electricity for sale	14,948	1,976	25,380	5,966	–	–
Electricity transmission services	1,866,985	2,235,199	3,781,854	4,571,303	671,349	685,239
Technological connection services	–	59	605	59	–	–
Rent	206	1,697	394	3,951	450	446
Other expenses	12,732	12,167	23,876	16,076	6,789	29,130
	1,933,171	**2,299,837**	**3,906,339**	**4,696,569**	**699,230**	**726,196**

	Carrying amount	
	30 June 2018	31 December 2017
The parent company		
Loans and borrowings	–	(5,051,049)
Entities under common control of the parent company		
Advances given	15,727	14,496
Advances received	(2,484)	(2,535)
	13,243	**(5,039,080)**

For the year ended 31 December 2017 dividends attributable to the parent company are no accrued (for the year ended 31 December 2016, amounted dividends RUB 61,576 thousand). As at 31 December 2017 and 30 June 2018, no debt to the parent company for the payment of dividends.

(c) Transactions with key management personnel

In order to prepare these consolidated financial statements the key management personnel are members of the Management Board and the Board of Directors.

The Group has no transactions with key management personnel and close family members except their remuneration in the form of salary and bonuses.

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

	Three month ended 30 June		Six month ended 30 June	
	2018	2017	2018	2017
Short-term remuneration for employees	78,556	64,226	156,099	144,213
Post employment benefits and other long-term benefits	604	958	1,208	1,916
	79,160	**65,184**	**157,307**	**146,129**

As at 30 June 2018, the carrying value of defined benefit plan, defined contribution plan and other post-employment benefit plans reported in the consolidated statement of financial position includes liabilities related to the key management personnel for RUB 22,309 thousand (31 December 2017: RUB 21,457 thousand).

(d) Transactions with government-related entities

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

Revenues from government-related entities for the three and six month ended 30 June 2018 constitute 22.07% and 16.82% (for the three and six month ended 30 June 2017: 10.23% и 10.37%) of total Group revenues including 7% and 8,31% (for the three and six month ended 30 June 2017: 8.06% и 8.24%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for government-related entities for the three and six month ended 30 June 2018 constitute 56.32% и 53.73% (for the three and six month ended 30 June 2017: 64.71% и 60.30%) of total electricity transmission costs.

Interest accrued on loans and borrowings from state-related banks for the three and six month ended 30 June 2018 amounted to 82% и 80% (for the three and six month ended 30 June 2017: 98% и 98%) of total interest accrued.

As at 30 June 2018 cash and cash equivalents held in government-related banks amounted to RUB 78,149 thousand (as at 31 December 2017: RUB 80,601 thousand).

Loans and borrowings received from government-related banks are disclosed in Note 18.

24 Events after the reporting date

As at 22 December 2017 the Ministry of Energy of the Russian Federation assigned the Company with the status of guaranteeing electric power supplier in the Arkhangelsk region effective from 1 January 2018. The status of guaranteeing electric power supplier was assigned until announcing the winner of the tender in respect of specified service areas, but not more than for the period of 12 months.

Energy retail operating results and active assets of energy retail segment Arkhenergo for six months ended 30 June 2018 are disclosed in Note 6.

In accordance with paragraph 217 of the Basic provisions of the functioning of the retail electricity markets, approved by the Government of the Russian Federation on 4 May 2012 №442 order of the Ministry of energy of Russia on July 4, 2018 № 529 "On holding a competition for the status of a guaranteeing supplier in the Arkhangelsk region", and on the basis of the minutes of the meeting of the Commission on holding tenders for the status of a guaranteeing supplier on 27 July 2018 № 09-1601-pr/VK, LLC "TGC-2 energy" was announced as the winner of the tender (Order of the Ministry of energy on August 01, 2018 №627). Therefore, performance completion of the status of guaranteeing electric power supplier of energy retail segment Arkhenergo is planned on 4th quarter 2018.