ROSSETI

Interregional Distribution Grid Company of the North-West

Interregional Distribution Grid Company of North-West and its subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2016
and Auditors' Report

March 2017

ROSSETI

Interregional Distribution Grid Company of the North-West

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15.03.2017
№ РСБУ-1720

INDEPENDENT AUDITOR'S REPORT

To: the Shareholders of PJSC "IDGC of North-West"

Audited entity:
Interregional Distribution Grid Company of North-West, Public Joint Stock Company (abbreviated name - **PJSC IDGC of North-West**);
Location: Sobornaya str. 31, Gatchina, Leningrad region, 188300, Russian Federation;
Primary state registration number – 1047855175785.

Auditor:
RSM RUS Ltd.
Location: 4, Pudovkina Str., Moscow, 119285;
Tel.: (495) 363-28-48; Fax: (495) 981-41-21;
Primary state registration number – 1027700257540;

RSM RUS Ltd. is a member of Self-regulatory organization of auditors Association "Sodruzhestvo" (membership certificate # 6938, ORNZ 11306030308), location: 21, Michurinsky Ave., bldg. 4, Moscow, 119192.

Opinion

We have audited the consolidated financial statements of **PJSC IDGC of North-West** and its subsidiaries (the Group), which comprise the Consolidated Statement of Financial Position as of 31 December 2016, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants` Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of

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the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

Impairment of non-current assets

In our opinion, this matter was one of most significance in our audit due to a significant share of property, plant and equipment in total assets of the Group, high level of subjectivity of assumptions used to determine a value in use of property, plant and equipment as well as materiality of judgments and estimates made by the management.

The majority of the Group's property, plant and equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value of the property, plant and equipment.

Therefore, the value in use for property, plant and equipment as at 31 December 2016 was determined using projected cash flows method. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment during the operating activities and upon disposal, to determine the recoverable amount of these assets.

We have performed procedures of analysis and testing of the model used in making the estimates, assessment of adequacy of assumptions underlying the estimates, including assumptions in respect of projected revenue, tariffs solutions, discount rates etc.

We have also reviewed the relevant controls in respect of the estimates, consideration by management of estimation uncertainty and changes in approaches as compared to the previous period. We have reviewed the actual outcomes of the use of the model to obtain sufficient and appropriate audit evidence about whether the management in making the estimates complied with IFRS requirements, the methods used in estimates of tests are appropriate and are applied consistently and the changes in estimates are reasonable based on information available at the date of preparation of the accounts.

For testing the model of estimate and underlying assumptions, we have engaged an expert in accordance with the procedure established by ISA.

We have evaluated the accuracy and sufficiency of disclosures to the consolidated financial statements of information about determination of the value of property, plant and equipment, including information about uncertainties taken into consideration when making impairment test estimates.

Non-current assets are disclosed in Note 11, 12 to the consolidated financial statements.

Impairment of accounts receivable

In our opinion, this matter was one of most significance in our audit due to significant balances of the Group's accounts receivable as at 31 December 2016, and because the management estimate of collectability of the receivables is based on the assumptions, in particular, forecasting financial solvency of the Group's customers.

We have performed procedures of evaluation of the adequacy of the Group's policy on reviewing accounts receivable and determining if accounts receivables impairment allowance should be established, as well as procedures of confirming the reasonableness of the estimates made by the management of the Group, including review of accounts receivable payments, review of maturity dates and overdue debts, review of customers' financial solvency.

We performed audit procedures in respect of information used by the Group to determine the impairment of accounts receivable, accounts receivable ageing structure, tested the accuracy of accrued accounts receivables impairment allowance based on the estimates documented by the management.

Accrued accounts receivables impairment allowance is disclosed by the Group in Notes 2, 15, 29 to the consolidated financial statements.

Recognition and measurement of revenue

Recognition and measurement of revenue were matters of most significance in our audit due to certain imperfection of mechanisms of operation of retail electricity market and it leads to disagreements between electric grid companies and energy supply companies in respect of volume of electricity consumption and capacity. The assessment by the Group's management of favorable outcome of the dispute resolution is, to a large extent, subjective and is based on the assumptions of dispute resolution.

We evaluated the internal control over revenue recognition, reviewed the accuracy of determined revenue amounts based on concluded contracts for electricity transmission and other work (services), on a sample basis obtained confirmations of accounts receivable balances from the counterparties, reviewed and evaluated existing procedures for confirming the volume of electricity transmitted and outcomes of litigations in respect of disputed amounts for the provided services, and also performed other procedures to obtain sufficient and appropriate audit evidence, in order to confirm the accuracy, in all material respects, of the amounts of revenues recognized in the consolidated financial statements.

Revenue is disclosed in Note 6 to the consolidated financial statements.

Recognition, measurement and disclosure of provisions and contingent liabilities

Recognition, measurement and disclosure of provisions and contingent liabilities in respect of litigations and claims of counterparties (including territorial electric grid companies and energy supply companies) were matters of most significance in our audit because they require a lot of management judgments in respect of significant amounts in dispute in the course of litigations and claim settlements.

The audit procedures included review of court rulings made by courts of different levels, review of adequacy of management judgments and documents confirming the assessment of possibility of outflow of economic resources following dispute resolutions, conformity of the prepared documentation with the existing contracts and compliance with the law.

Accrued provisions and contingent liabilities of the Group are disclosed in Notes 24, 26 to the consolidated financial statements.

Responsibilities of Management and the Audit Committee of the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statement, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the Audit Committee of the Board of Directors all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Management Board Chairperson — **N.A. Dantser**

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

ORNZ in the Register of auditors and audit organizations – 21706004215

Manager responsible for the audit — **N.N. Usanova**

Audit Certificate No. 05-000030. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 30 November 2011 No. 25. Permanent award.

ORNZ in the Register of auditors and audit organizations – 21706004441

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year 2016

(in thousand of Russian roubles)

	Notes	For the year ended 31 December	
		2016	**2015**
Revenue	6	45,540,652	42,370,024
Government grants		5,133	5,962
Operating expenses	7	(44,323,957)	(40,478,762)
Other non-operating income, net		1,209,693	948,163
Profit from operating activities		**2,431,521**	**2,845,387**
Finance costs, net	9	(1,670,455)	(1,765,348)
Profit before income tax		**761,066**	**1,080,039**
Income tax expense	10	(176,430)	(265,153)
Profit for the year		**584,636**	**814,886**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		12,156	(820)
Income tax related to items that may be reclassified subsequently to profit or loss		(2,431)	164
Total items that may be reclassified subsequently to profit or loss		9,725	(656)
Items that will never be reclassified subsequently to profit or loss:			
Remeasurements of the net defined benefit liability		41,659	(138,639)
Income tax related to items that will never be reclassified *subsequently* to profit or loss		(8,332)	27,728
Total items that will never be reclassified subsequently to profit or loss		33,327	(110,911)
Other comprehensive income /(loss) for the year, net of income tax		**43,052**	**(111,567)**

The accompanying notes on pages 12 to 59 are an integral part of these consolidated financial statements.

ROSSETI

Interregional Distribution Grid Company of the North-West

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year 2016

(in thousand of Russian roubles)

	Notes	For the year ended 31 December	
		2016	2015
Total comprehensive income for the year		**627,688**	**703,319**
Profit attributable to:			
Owners of the Group		584,644	814,855
Non-controlling interests		(8)	31
Profit for the year		**584,636**	**814,886**
Total comprehensive income attributable to:			
Owners of the Group		627,696	703,288
Non-controlling interests		(8)	31
Total comprehensive income for the year		**627,688**	**703,319**
Earnings per share			
Basic and diluted earnings per share (in Russian roubles)		0,0066	0,0073
Weighted average number of shares in issue		95,785,923,138	95,785,923,138

General Director — A.V. Letyagin

Deputy General Director for Economy and Finance — P.V. Shiryaev

Chief Accountant — I.G. Zhdanova

14 March 2017

The accompanying notes on pages 12 to 59 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position
as at 31 December 2016

(in thousand of Russian roubles)

	Notes	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	11	35,218,505	35,473,865
Intangible assets	12	162,980	160,018
Deferred tax assets	10	8,664	8,395
Investments in securities and other financial assets	13	560,105	566,733
Other non-current assets	14	733,220	634,740
Total non-current assets		**36,683,474**	**36,843,751**
Current assets			
Accounts receivable and prepayments	15	14,171,681	15,500,036
Current income tax receivable		34,050	32,055
Inventories	16	807,153	925,497
Other current assets		748,726	528,340
Cash and cash equivalents	18	361,619	71,247
Total current assets		**16,123,229**	**17,057,175**
Total assets		**52,806,703**	**53,900,926**

The accompanying notes on pages 12 to 59 are an integral part of these consolidated financial statements.

ROSSETI

Interregional Distribution Grid Company of the North-West

Consolidated Statement of Financial Position
as at 31 December 2016

(in thousand of Russian roubles)

	Notes	31 December 2016	31 December 2015
Equity and liabilities			
Share capital and reserves			
Share capital		9,578,592	9,578,592
Retained earnings		490,891	313,499
Common control combination reserve		10,457,284	10,457,284
Other reserves		255,684	212,632
Equity attributable to owners of the Group		**20,782,451**	**20,562,007**
Non – controlling interests		347	355
Total equity		**20,782,798**	**20,562,362**
Non-current liabilities			
Long-term loans and borrowings	20	14,319,493	9,940,611
Post-employment benefit obligations	21	1,762,441	1,790,107
Deferred tax liabilities	10	1,804,707	1,881,690
Other non-current liabilities	22	2,026,003	1,134,620
Total non-current liabilities		**19,912,644**	**14,747,028**
Current liabilities			
Accounts payable and advances received	23	10,263,436	12,003,257
Income tax payable		139,088	78,008
Other taxes payable		1,175,449	1,104,520
Current loans and borrowings	20	473,809	5,204,165
Current provisions	24	59,479	201,586
Total current liabilities		**12,111,261**	**18,591,536**
Total liabilities		**32,023,905**	**33,338,564**
Total equity and liabilities		**52,806,703**	**53,900,926**

General Director — A.V. Letyagin

Deputy General Director for Economy and Finance — P.V. Shiryaev

Chief Accountant — I.G. Zhdanova

14 March 2017

The accompanying notes on pages 12 to 59 are an integral part of these consolidated financial statements.

ROSSETI

Interregional Distribution Grid Company of the North-West

Consolidated Statement of Changes in Equity
for the year ended 31 December 2016

(in thousand of Russian roubles)

	Equity attributable to owners of the Group						
	Share capital	Retained earnings	Common control combination reserve	Other reserves	Total	Non-controlling interests	Total equity
Balance at 1 January 2015	**9,578,592**	**(501,356)**	**10,457,284**	**324,199**	**19,858,719**	**324**	**19,859,043**
Total comprehensive loss							
Profit for the year	–	814,855	–	–	**814,855**	31	**814,886**
Other comprehensive loss	–	–	–	(111,567)	**(111,567)**	–	**(111,567)**
Total comprehensive income for the year	–	814,855	–	(111,567)	**703,288**	31	**703,319**
Transactions with owners							
Dividends to shareholders (Note 19)	–	–	–	–	–	–	–
Balance at 31 December 2015	**9,578,592**	**313,499**	**10,457,284**	**212,632**	**20,562,007**	**355**	**20,562,362**
Balance at 01 January 2016	**9,578,592**	**313,499**	**10,457,284**	**212,632**	**20,562,007**	**355**	**20,562,362**
Total comprehensive income							
Profit/loss for the year	–	584,644	–	–	**584,644**	(8)	**584,636**
Other comprehensive income	–	–	–	43,052	**43,052**	–	**43 052**
Total comprehensive income for the year	–	584,644	–	43,052	**627,696**	(8)	**627,688**
Transactions with owners							
Dividends to shareholders (Note 19)	–	(407,473)	–	–	(407,473)	–	(407,473)
Balance at 31 December 2016	**9,578,592**	**490,670**	**10,457,284**	**255,684**	**20,782,230**	**347**	**20,782,577**

The accompanying notes on pages 12 to 59 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2016

(in thousand of Russian roubles)

	Year ended 31 December	
	2016	**2015**
Cash flows from operating activities		
Profit for the year	**584 636**	**814,886**
Adjustments for:		
Income tax expense	176,430	265,153
Finance costs, net	1,670,455	1,765,348
Depreciation and amortisation	3,989,556	4,001,297
Impairment of property, plant and equipment	505,471	–
Loss on disposal of PPE and intangible assets	31,519	8,866
Provision for impairment of accounts receivable	1,108,988	616,327
Reversal of provision for inventory obsolescence	(782)	(1,084)
Other non-cash transactions	90,686	151,703
	8,156,959	**7,622,496**
Working capital changes		
Accounts receivable and prepayments	212,725	(994,929)
Inventories	119,126	(133,977)
Other current assets	(220,386)	40,670
Provisions and employee benefit obligations	66,165	–
Accounts payable, advances received and provisions	(691,238)	1,304,236
Cash flows from operations before income tax and interest paid	**7,643,351**	**7,838,496**
Interest paid	(1,695,399)	(1,841,083)
Income tax paid	(192,674)	(199,289)
Contributions to defined benefit plan	(137,637)	(210,324)
Net cash used in operating activities	**5,617,641**	**5,587,800**

The accompanying notes on pages 12 to 59 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2016

(in thousand of Russian roubles)

	Year ended 31 December	
	2016	**2015**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment and intangible assets	1,533	3,958
Purchase of property, plant and equipment, intangible assets and other non-current assets	(4 625 227)	(4,484,591)
Interest received	47,832	356,380
Other income from investments	304	250
Proceeds from disposal of financial investments and repayment of deposit	–	3,000,000
Financial investment payments	–	(2,084,600)
Net cash used in investing activities	**(4,575,558)**	**(3,208,603)**
Cash flows from financing activities		
Received loans and borrowings	17,478,462	10,585,734
Repayments of loans and borrowings	(17,826,929)	(13,932,214)
Dividends paid	(403,244)	–
Net cash from financing activities	**(751,711)**	**(3,346,480)**
Net increase/(decrease) in cash and cash equivalents	**290,372**	**(967,283)**
Cash and cash equivalents at 1 January	71,247	1,038,530
Cash and cash equivalents at 31 December	**361,619**	**71,247**

The accompanying notes on pages 12 to 59 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

1. THE GROUP AND ITS OPERATIONS

Background

Public Joint Stock Company Interregional Distribution Grid Company of North-West (herein "IDGC North-West" or the "Company") was established in December 2004 in accordance with the laws of the Russian Federation. The Company was formed during the process 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.

The registered office of the Company is Sobornaya str. 31, Gatchina, Leningrad region, 188300, Russian Federation. The Company's main offices are at Constitution Square, building 3 "A", Saint Petersburg, 196247, Russian Federation.

Formation of the Group

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 North-West was incorporated with seven branches, located in the Arkhangelsk, Vologda, Syktyvkar, Novgorod, Pskov, Petrozavodsk, Murmansk and subsidiaries (the "Group"). The principal subsidiaries are listed in Note 4.

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 (see Note 2).

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred its 55.38% of the Company's shares to OJSC "Holding IDGC", a state-controlled entity. On 4 April 2013 in accordance with decision of Extraordinary General stockholders meeting dated 23 March 2013 OJSC "Holding IDGC" was renamed to OJSC "Russian Grids" to comply with decree of President of the Russian Federation dated 22 November 2012 No. 1567 "About open joint stock company "Russian Grids". On July 17 2015 Joint Stock Company Russian Grids was made a new trade name with alterations regarding organizational and legal form - Rosseti, Public Joint Stock Company (PJSC ROSSETI).

Relations with the state and current regulations

The Group's business is a natural monopoly influenced by the Russian government. The government of the Russian Federation directly affects the Group's operations through state tariffs.

In accordance with legislation of Russian Federation, the Group's tariffs are controlled by Regional Energy Commissions. Federal Antimonopoly Service of the Russian Federation puts through control of establishment of tariffs.

The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the Group could raise capital required to maintain and expand current capacity.

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 some 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 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 impact may differ from management's assessment.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Base of measurement

The consolidated IFRS financial statements are prepared on the historical cost basis except for investments available-for-sale that are stated at fair value; property, plant and equipment was revalued as at 1 January 2007 by an independent appraiser to determine deemed cost as part of the first-time adoption of IFRSs.

Basis of preparation

These financial statements are prepared based on the statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of ending balances, results of operations and cash flows in accordance with International Financial Reporting Standards (IFRS).

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in Roubles has been rounded to the nearest thousand, except when otherwise indicated.

Predecessor accounting

In 2008 the Group accounted for the merger with entities controlled by RAO UES as business combination among entities under common control using the predecessor accounting method. Accordingly, assets and liabilities of the contributed entities were combined from the earliest period presented and accounted for at their carrying values, as determined by RAO UES in its IFRS consolidated financial statements.

The difference between the consideration paid and the predecessor carrying values of the net assets relating to the merger of the entities under common control is recorded in equity as a common control combination reserve.

Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRSs requires management to make 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting

estimates are recognized in the period in which estimates are revised and in all future periods affected.

In particular, information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following Notes:

Note 10, 26 – income tax;

Note 11 – useful lives of property, plant and equipment, impairment of non-financial assets;

Note 15 – provisions for impairment of trade and other receivables;

Note 21 – post-employment obligations;

Note 24 – provisions for vacations and bonuses and for litigations and claims.

In the Group management's view there are no assumptions or estimation uncertainties that may have a significant risk of resulting in a material adjustment within the next reporting year.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

Basis of consolidation

The consolidated financial statements consist of the financial statements of the Company and entities controlled by the Group (its subsidiaries).

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, income, expenses, unrealized profits and losses relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in net assets of consolidated subsidiaries are identified separately from the Group's equity. Non-controlling interests are determined as their proportionate share of the acquiree's identifiable net assets. Total comprehensive income is attributable to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Foreign currency transactions

In preparing financial statements of the individual entities, transactions in currencies other than the

entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each end of reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences are recognised in profit or loss, except for differences related to available-for-sale financial assets which are recognised in other comprehensive income.

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- expected to be realised or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Group measures the fair value of available-for-sale financial assets at each reporting date to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Information about the fair value of financial instruments measured at amortized cost is provided in Note 28.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants

would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Property, plant and equipment

Owned property, plant and equipment

Items of property, plant and equipment, except for land, are measured at historical cost (or deemed cost) less accumulated depreciation and impairment loss. Land is measured at cost less accumulated impairment loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the cost of that equipment.

Items of property, plant and equipment transferred from customers are measured at fair value on initial recognition.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised on a net basis in other non-operating income and expense in the consolidated statement of profit or loss and other comprehensive income.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised, with the carrying amount of the component replaced being

written off. Other subsequent expenditure is capitalised if a future economic benefit will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the consolidated statement of profit or loss and other comprehensive income as an expense as incurred.

Leased property, plant and equipment

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired under finance lease is initially recognised at an amount equal to the lower of its fair value and the present value of the minimum lease payment at inception of the lease.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy for similar assets.

The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation commences on the date when an asset is ready for its intended use. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings and structures	7-50 years;
Power transmission equipment	7-33 years;
Power conversion equipment	5-29 years.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Intangible assets

All of the Group's intangible assets have finite useful lives and are capitalised on the basis of the costs incurred to acquire and prepare them for their intended use.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized, and expenditure is reflected in the statement of profit and loss in the year in which it was incurred.

Intangible assets are amortised using the straight-line method from the date they are ready for use over their useful lives, for the current and comparative periods, as follows:

Software	3-15 years;
Licenses and certificates	3-5 years.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell.

Any impairment loss on a disposal group is allocated to assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the consolidated statement of profit or loss and other comprehensive income. Gains are not recognised in excess of any cumulative impairment loss.

Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and accounts receivable, held-to-maturity and available-for-sale. Management determines the classification of its financial assets at initial recognition.

The Group classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss, loans and borrowings, accounts payable.

As at and for the years ended 31 December 2016 and 2015, the Group had no derivatives designated as hedging instruments in an effective hedge, or financial assets and liabilities classified by the Group at fair value through profit or loss.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

Initial recognition

The Group initially recognises loans and receivables, deposits, debt securities issued and subordinated liabilities on the date that they are originated/issued. All other financial assets are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument. All financial assets other than financial assets at fair value through profit or loss are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a

transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

When the Group has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Group has a legally vested right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Loans and receivables

Loans and receivables are a category of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 15 and cash and cash equivalents as presented in Note 18.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and cash deposits and highly liquid investments with original maturities of three months or less, those are readily convertible to known amount of cash and are subject to an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of reporting period. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss previously recognised in equity is included in profit and loss. Dividends on available-for-sale equity instruments are recognized in the consolidated

statement of profit or loss and other comprehensive income when the Group's right to receive the dividends is established. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost. Available-for-sale financial assets comprise equity securities as presented in Note 13.

(ii) Non-derivative financial liabilities – measurement

Financial liabilities are classified initially as loans and borrowings, trade and other accounts payable. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Impairment of non-derivative financial assets

A financial asset not carried at fair value through profit or loss, including investment in an equity accounted investee, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include:

- default or delinquency by a debtor,
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise,
- indications that a debtor or issuer will enter bankruptcy,
- adverse changes in the payment status of borrowers or issuers in the Group;
- economic conditions that correlate with defaults;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both a specific asset and collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale investment securities are recognised by reclassifying the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in the statement of profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use and goodwill, recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment

loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is calculated on the weighted average basis or using the specific identification method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Spare parts

Spare parts and servicing equipment are carried as inventory and recognized in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared (approved by the shareholders) before or on the reporting date. Dividends are disclosed when they are declared after the financial statements date, but before the consolidated financial statements are authorized for issue.

Post-employment benefit obligations

Long-term employee benefits provided by the Group include defined contribution plans, defined benefit plans and other long-term employee benefits.

Defined contribution plans

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

Defined benefit post-employment plans

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

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

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Other long-term employee benefits

Other long-term defined benefit plans provided by the Group are regulated by Collective Agreements and include: benefits in connection with the jubilee dates of employees' birthdays, one-time benefits paid in case of death and financial support to workers. The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefits are discounted to determine its present value, and the fair value of any related assets is deducted.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is stated net of value added tax (VAT).

Rendering of services

Revenue from transmitting electricity is recognised over the period the service was rendered based on the actual amount provided, determined based on measurements of a supply meters, and tariffs as set be regional regulatory bodies.

Revenue for the technological connection to the power network is recognised at the moment of actual connection of the customer to the network.

Revenue from sale of electricity is recognised over the period the service was rendered based on the actual amount provided, determined based on measurements of a supply meters.

Dividends and interest income

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as a part the to the cost of those assets, until such time as the assets are ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss using the effective interest method in the period in which they are incurred.

Income Tax

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current income tax expense is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such tax assets and liabilities are not recognised if the temporary difference arises on the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held by the Group. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the chief operating decision body – the Management Board of the Company to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Management Board of the Company include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

New standards and interpretations adopted

Annual improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments did not have any impact on the Group's accounts.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;

- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments did not have any impact on the Group's accounts.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments didn't have any impact on the Group's accounts.

Standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instrument

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

IFRS 16 replaces the existing lease accounting guidance in 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 Involving the Legal Form of a Lease. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted.

Amendments to IAS 7 Disclosure initiative

Amendments require disclosure of information which enables users of financial statements evaluate changes in liabilities recognised due to financial activities, including changes either related or not to changes in cash flows. Amendments are effective for annual periods beginning on or after 1 January 2017. Early adoption is permitted. To meet new requirements for information disclosure the Group intends to prepare reconciliation of balances of liabilities as at the beginning and the end of the reporting period with disclosure of changes attributed to financial activities.

Amendments to IAS 12 - Recognition of deferred tax asset on tax loss carry-forward

Amendments clarify requirements to recognition of deferred tax asset on tax loss carry-forward attributable to debt financial instruments measured at fair value. Amendments are effective on or after 1 January 2017. Early adoption is permitted. The Group is currently assessing the impact of the amendments but expects amendments to have no significant impact on the Group.

Other changes

The following new standards and amendments to standards are not expected to have significant impact on the Group consolidated financial statements:

- «Classification and valuation of share-based payments transactions (Amendments to IFRS 2)»;
- «Sale or contribution of assets in a deal between the investor and associated company or joint venture (Amendments to IFRS 10 and IAS 28)».

4. GROUP SUBSIDIARIES

The Group's consolidated financial statements include the following subsidiaries that are incorporated in Russian Federation:

Subsidiary	Principal activity	Ownership as at 31 December 2016, %	Ownership as at 31 December 2015, %
OJSC Pskovenergosbyt	Sale of electricity	100	100
OJSC Pskovenergoagent	Collection services	100	100
OJSC Energoservice North-West	Electricity metering services	100	100
OJSC Lesnaya skazka	Recreation	98	98

5. OPERATING SEGMENTS

The Management Board of the Company has been determined as the Group chief operating decision maker ("CODM").

The Group's primary activity is the provision of electricity transmission services and connection services within regions of the Russian Federation.

The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation (branches of IDGC North-West) and segments relating to other activities (represented by separate legal entities).

The Management Board regularly evaluates and analyses financial information of the segments reported in the statutory financial statements of respective segment entities on at least a quarterly basis.

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

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

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 major differences relate to:

- difference in the measurement of property, plant and equipment;
- recognition of employee benefits obligations; and
- difference in accounting for deferred tax.

Reconciliation of items measured as reported to the Management Board with similar items in these consolidated financial statements include those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Information regarding the results of each reportable segment is included below. Performance is primarily measured based on segment revenues and profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Revenues and segment profit before tax are used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments between each other and relative to other entities that operate within those industries.

Segment results for the year ended 31 December 2016 are presented below:

	Electricity Transmission							Energy Retail					
RUB thousand	Arkh-energo	Vologda-energo	Karel-energo	Kol-energo	Komi-energo	Novgorod-energo	Pskov-energo	Kol-energo	Novgorod-energo	Pskov-energosbyt	Other	Unallocated	Total
Revenues													
Power transmitting	4,819,361	6,839,987	7,398,214	6,595,938	6,891,844	4,091,429	689,827	–	–	–	–	–	**37,326,600**
Technological connection to power network	179,261	34,019	41,116	20,558	735,675	20,040	92,493	–	–	–	–	–	**1,123,162**
Sale of electricity	–	–	–	–	–	–	–	–	–	6,352,856	–	–	**6,352,856**
Other revenue	303,483	65,365	162,464	47,870	55,914	31,880	46,568	–	–	14,445	10,045	–	**738,034**
Intersegment revenue	–	–	52	–	–	–	3,267,885	–	–	523,784	293,169	–	**4,084,890**
Total revenues	**5,302,105**	**6,939,371**	**7,601,846**	**6,664,366**	**7,683,433**	**4,143,349**	**4,096,773**	–	–	**6,891,085**	**303,214**	–	**49,625,542**
Profit/(loss) before income tax	**(598,303)**	**403,633**	**239,468**	**494,806**	**(312,391)**	**260,078**	**257,666**	–	–	**6,875**	**385**	–	**752,217**
Depreciation of non-current assets	(467,151)	(1,083,110)	(449,181)	(323,145)	(933,028)	(552,874)	(432,188)	–	–	(353)	(3,422)	(11,378)	**(4,255,831)**
Finance income	7,158	10,213	7,761	9,929	8,196	5,469	5,657	–	–	214	556	–	**55,153**
Finance costs	(602,704)	(143,090)	(163,827)	(83 287)	(280,675)	(201,024)	(147,614)	–	–	(20,454)	(7,001)	–	**(1,649,676)**
Income tax expense	(37,654)	(59,946)	(27,480)	(63,206)	(22,942)	(36,372)	(40,468)	–	–	(2,144)	(2,111)	–	**(292,323)**
Total assets	**9,067,933**	**11,497,065**	**4,812,599**	**4,706,816**	**13,468,475**	**6,448,392**	**5,192,265**	**1,171,611**	**598**	**780,188**	**75,509**	**1,926,644**	**59,148,095**
Including property, plant and equipment	3,933,200	8,881,448	3,300,312	3,586,607	11,351,155	5,147,089	4,496,471	–	–	103	12,782	34,431	**40,743,598**
Total liabilities	**1,025,368**	**1,180,712**	**1,047,004**	**1,169,749**	**3,998,722**	**1,937, 108**	**508,288**	–	–	**738,498**	**148,738**	**19,769,300**	**31,523,487**
Capital expenditures	389,196	787,044	107,859	444,434	1,829,187	224,998	369,357	–	–	58	2,233	49	**4,154,415**

Segment results for the year ended 31 December 2015 are presented below:

	Electricity Transmission							Energy Retail					
RUB thousand	Arkh-energo	Vologda-energo	Karel-energo	Kol-energo	Komi-energo	Novgorod-energo	Pskov-energo	Kol-energo	Novgorod-energo	Pskov-energosbyt	Other	Unallocated	Total
Revenues													
Power transmitting	4,772,820	6,711,685	6,762,750	5,034,823	6,672,420	3,485,825	244,140	–	–	–	–	–	**33,684,463**
Technological connection to power network	137,723	41,479	91,793	101,894	202,153	30,921	198,195	–	–	–	–	–	**804,158**
Sale of electricity	–	–	–	–	–	–	–	946,026	–	5,969,141	–	–	**6,915,167**
Other revenue	310,915	360,806	135,586	29,946	59,020	27,884	32,783	–	–	1,736	7,560	–	**966,236**
Intersegment revenue	–	–	45	–	–	–	3 230 977	–	–	445 056	258 721	–	**3,934,799**
Total revenues	**5,221,458**	**7,113,970**	**6,990,174**	**5,166,663**	**6,933,593**	**3,544,630**	**3,706,095**	**946,026**	–	**6,415,933**	**266,281**	–	**46,304,823**
Profit/(loss) before income tax	**201,558**	**711,966**	**122,843**	**(53,665)**	**(39,625)**	**(264,489)**	**92,628**	**108,883**	–	**14,638**	**12**	–	**894,749**
Depreciation of non-current assets	(467,190)	(1,081,938)	(452,651)	(300,103)	(873,357)	(566,058)	(423,834)	–	–	(542)	(2,906)	(10,729)	**(4,179,308)**
Finance income	25,243	34,235	27,431	30,800	31,472	23,460	23,851	41	–	125	2,072	–	**198,730**
Finance costs	(370,821)	(329,609)	(240,827)	(263,336)	(156,318)	(253,587)	(185,542)	–	–	(15,951)	(5,459)	–	**(1,821,452)**
Income tax expense	(33,769)	(49,141)	(23,356)	(17,967)	(48,470)	(30,061)	(33,318)	–	–	(2,708)	(1,781)	–	**(240,571)**
Total assets	**8,211,800**	**12,178,971**	**6,184,735**	**5,135,442**	**12,882,246**	**6,446,538**	**5,279,870**	**1,696,902**	**4,209**	**753,412**	**81,212**	**1,586,239**	**60,441,576**
Including property, plant and equipment	4,012,397	9,182,352	3,652,029	3,466,367	10,430,827	5,477,203	4,565,182	–	–	171	13,330	45,760	**40,845,618**
Total liabilities	**952,285**	**1,433,260**	**1,207,813**	**1,117,337**	**4,531,011**	**647,026**	**567,173**	–	–	**710,488**	**149,800**	**21,544,538**	**32,860,731**
Capital expenditures	509, 011	917,401	246,858	406,060	1,515,095	118,942	389,788	–	–	–	3,086	13,556	**4,119,797**

The reconciliations of key segment items measured as reported to the Management Board with similar items in these consolidated financial statements are presented in the tables below.

Reconciliation of revenues is presented below:

RUB thousand	Year ended 31 December 2016	2015
Segment revenues	**49,625,542**	**46,304,823**
Intersegment revenue elimination	(4,084,890)	(3,934,799)
Revenues per consolidated statement of profit or loss and other comprehensive income	**45,540,652**	**42,370,024**

Reconciliation of profit before income tax is presented below:

RUB thousand	Year ended 31 December 2016	2015
Segment results –profit before income tax	**752,217**	**894,749**
Adjustment for depreciation of property, plant and equipment	352,580	283,409
Adjustments for finance costs	10,434	15,933
Intergroup dividends	(10,660)	(1,693)
Impairment of property, plant and equipment	(505,471)	–
Other adjustments	161,966	(112,359)
Profit before income tax per consolidated statement of profit or loss and other comprehensive income	**761,066**	**1,080,039**

Reconciliation of depreciation and amortization is presented below:

RUB thousand	Year ended 31 December 2016	2015
Segment depreciation and amortization	**(4,255,831)**	**(4,179,308)**
Adjustment for depreciation and impairment of property, plant and equipment	352,580	283,409
Amortization of intangible assets	(1,676)	(4,259)
Reclassification from other expenses	(84,628)	(101,139)
Depreciation, amortization per consolidated statement of profit or loss and other comprehensive income	**(3,989,555)**	**(4,001,297)**

Reconciliation of financial costs is presented below:

RUB thousand	Year ended 31 December 2016	2015
Segment finance income	**55,153**	**198,730**
Segment finance costs	**(1,649,676)**	**(1,821,452)**
Effect of discounting of accounts receivable	10,434	15,933
Effect of adjustment for post-employment obligations	(116,332)	(136,190)
Other finance costs reclassification	29,966	(22,369)
Finance costs per consolidated statement of profit or loss and other comprehensive income	**(1,670,455)**	**(1,765,348)**

Reconciliation of income tax expense is presented below:

RUB thousand	Year ended 31 December 2016	2015
Segment income tax expense	**(292 323)**	**(240,571)**
Adjustment due to different accounting principles for deferred tax calculation	115,893	(24,582)
Income tax (expense) per consolidated statement of profit or loss and other comprehensive income	**(176,430)**	**(265,153)**

Reconciliation of total assets is presented below:

RUB thousand	31 December 2016	31 December 2015
Total segment assets	**59,148,095**	**60,441,576**
Recognition of assets related to post-employment benefits	440,426	475,524
Adjustment for differences in deemed cost and depreciation rates	(3,437,321)	(3,594,981)
Adjustment due to different accounting principles for deferred tax calculation	(932,864)	(899,909)
Impairment of property, plant and equipment	(2,087,772)	(1,776,772)
Intersegment balances	(314,001)	(495,258)
Adjustment for inventories valuation	(227,639)	(223,489)
Investments in subsidiaries	(31,354)	(36,220)
Discounting of accounts receivable	(18,528)	(29,101)
Other adjustments	267,661	39,556
Total assets per consolidated statement of financial position	**52,806,703**	**53,900,926**

Reconciliation of property, plant and equipment is presented below:

RUB thousand	31 December 2016	31 December 2015
Segment property, plant and equipment	**40,743,598**	**40,845,618**
Adjustment for differences in deemed cost and depreciation rates, amount of capitalized interest	(3,437,321)	(3,594,981)
Impairment of property, plant and equipment	(2,087,772)	(1,776,772)
Property, plant and equipment per consolidated statement of financial position	**35,218,505**	**35,473,865**

Reconciliation of total liabilities is presented below:

RUB thousand	31 December 2016	31 December 2015
Total segment liabilities	**31,523,487**	**32,860,731**
Post-employment benefit obligations	1,762,441	1,790,107
Adjustment due to different accounting principles for deferred tax	(997,203)	(865,301)
Intersegment balances	(314,001)	(495,258)
Other adjustments	49,181	48,285
Total liabilities per consolidated statement of financial position	**32,023,905**	**33,338,564**

Information on revenues for separate types of services of the Group is presented in Note 6.

The Group operates in the Russian Federation. Significant customers of the Group are entities controlled by the Government of the Russian Federation. The amounts of revenues from such entities are disclosed in Note 25. Revenues from companies under government control are reported by all

segments of the Group.

For the years ended 31 December 2016 and 2015 the Group had two major customers – electricity distribution selling companies in two regions of the Russian Federation – with individual turnover over 15% of total Group revenue. Revenue from such customers is reported by transmission segments operating in the regions where these distribution companies are located: Arkhangelsk Region and Komi (2015: Arkhangelsk Region, Komi). The total amounts of revenue for these major customers for the year ended 31 December 2016 were RUB 3,678,172 thousand (Arkhangelsk Region) and RUB 3,379,310 thousand (Komi) (for the year ended 31 December 2015: RUB 3,826,377 thousand (Arkhangelsk Region) and RUB 3,457,024 thousand (Komi)). Trade receivables from major customers as at 31 December 2016 amounted to RUB 3,796,538 thousand (Arkhangelsk Region) and RUB 441,066 thousand (Komi) (as at 31 December 2015: RUB 3,146,314 thousand (Arkhangelsk Region) and RUB 723,193 thousand (Komi)).

6. REVENUE

	Year ended 31 December	
	2016	**2015**
Power transmitting	37,326,600	33,684,463
Sale of electricity	6,352,856	6,917,323
Technological connection to power network	1,123,162	804,158
Other revenue	738,034	964,080
Total revenue	**45,540,652**	**42,370,024**

7. OPERATING EXPENSES

	Year ended 31 December	
	2016	**2015**
Power transmitting services	13,959,491	12,177,903
Salaries and other personnel expenses (Note 8)	11,145,194	10,391,337
Electricity purchased for resale	3,345,786	3,435,630
Depreciation and amortization	3,989,555	4,001,297
Electricity purchased to cover losses	4,630,614	4,223,017
Impairment of property, plant and equipment	505,471	–
Raw materials and supplies	1,957,180	1,893,047
Network and equipment repair services	679,164	698,277
Taxes other than income tax	470,328	418,449
Energy resources for own needs	285,405	222,275
Telecommunication and information services	199,638	217,500
Impairment of receivables	1,108 988	616,327
Other operating expenses	2 047,143	2,183,703
Total operating expenses	**44,323,957**	**40,478,762**

8. SALARIES AND OTHER PERSONNEL EXPENSES

Salaries and other personnel expenses for the year ended 31 December 2016 and 2015 were:

	Year ended 31 December	
RUB thousand	**2016**	**2015**
Wages, salaries	7,584,481	7,066,579
Defined contribution plan	2,258,458	2,103,542
Unused vacation provision	1,225,985	1,165,307
Defined benefit plan (Note 21)	76,270	55,909
Total	**11,145,194**	**10,391,337**

9. FINANCE INCOME AND FINANCE COSTS

Finance costs for the year ended 31 December 2016 and 2015 were:

	Year ended 31 December	
RUB thousand	**2016**	**2015**
Interest expense on loans and borrowings	(1,692,132)	(1,885,073)
Discounting of long-term accounts receivable upon initial recognition	(4,647)	(2,348)
Income from reversal of impairment loss/ (Loss on impairment of financial assets)	30,237	(21,719)
Interest expense on post-employment obligations (Note 21)	(149,814)	(168,977)
Less: amounts included in the cost of qualifying assets	49,333	69,079
Total finance costs	**(1,767,023)**	**2,009,036**
Interest income	48,151	192,399
Amortization of discount in respect of other long-term accounts receivable	15,203	18,280
Other finance income	33,214	33,009
Total finance income	**96,568**	**243,688**
Total finance costs, net	**(1,670,455)**	**(1,765,348)**

The annual capitalization rate for general purpose borrowings for the year ended 31 December 2016 was 10.69% (2015: 10.84%).

10. INCOME TAX

Income tax recognised in profit or loss for the year ended 31 December 2016 and 2015 was:

	Year ended 31 December	
RUB thousand	**2016**	**2015**
Current income tax	353,431	265,436
Adjustment for prior years	(88,365)	(111,158)
Fines	(621)	(11)
Deferred income tax	(88,015)	110,886
Total income tax expense	**176,430**	**265,153**

Profit before income tax for the year is reconciled to income tax expense as follows:

RUB thousand	Year ended 31 December 2016	2015
Profit before income tax	**761,067**	**1,080,039**
Income tax at statutory tax rate	**152,213**	**216,008**
Adjustments due to:		
Change in measurement of deferred income tax asset	–	13,720
Permanent tax differences (non-deductible income and expenses)	113,203	146,594
Fines	(621)	(11)
Amounts of tax overprovided for previous years	(88,365)	(111,158)
Income tax expense at effective tax rate of 22% (2015: 23%)	**176,430**	**265,153**

The statutory tax rate effective in the Russian Federation was 20% in 2016 and in 2015.

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The statutory tax rate of 20% was applied in the calculation of deferred tax assets and liabilities as at 31 December 2016 and 2015. The tax effect of the movements in these temporary differences is detailed below:

RUB thousand	31 December 2016	Recognized in profit or loss	Recognized in other comprehensive income	1 January 2016
Post-employment benefit obligations	113,011	1,954	(8,332)	119,389
Other current liabilities and accrued expenses	113,449	(26,572)	–	140,021
Other assets/ liabilities	346,169	(25,672)	(2,431)	374,272
Accounts payable and advances received	775	(134)	–	909
Deferred tax assets	**573,404**	**(50,424)**	**(10,763)**	**634,591**
Netting	(564,740)	61,456	–	(626,196)
Net deferred tax assets	**8,664**	**11,032**	**(10,763)**	**8,395**
Property, plant and equipment	(1,940,554)	60,720	–	(2,001,274)
Accounts receivable	(428,893)	77,719	–	(506,612)
Deferred tax liabilities	**(2,369,447)**	**138,439**	–	**(2,507,886)**
Netting	564,740	(61,456)	–	626,196
Net deferred tax liabilities	**(1,804,707)**	**(76,983)**	–	**(1,881,690)**

RUB thousand	31 December 2015	Recognized in profit or loss	Recognized in other comprehensive income	1 January 2015
Post-employment benefit obligations	119,389	(3,755)	27,728	95,416
Other current liabilities and accrued expenses	140,021	27,689	–	112,332
Other assets/ liabilities	374,272	25,939	164	348,169
Accounts payable and advances received	909	582	–	327

RUB thousand	31 December 2016	Recognized in profit or loss	Recognized in other comprehensive income	1 January 2016
Deferred tax assets	**634,591**	**50,455**	**27,892**	**556,244**
Netting	(626,196)	(91,025)	–	(535,171)
Net deferred tax assets	**8,395**	**(40,570)**	**27,892**	**21,073**
Property, plant and equipment	(2,001,274)	(51,153)	–	(1,950,121)
Accounts receivable	(506,612)	(110,187)	–	(396,426)
Deferred tax liabilities	**(2,507,886)**	**(161,340)**	**–**	**(2,346,547)**
Netting	626,196	91,025	–	535,171
Net deferred tax liabilities	**(1,881,690)**	**(70,315)**	**–**	**(1,811,376)**

As at 31 December 2016 the Group has not recognised deferred tax assets in respect of tax loss carry-forwards. As at 31 December 2016 there was no tax loss carried forward (31 December 2015: no). Tax losses incurred in the tax periods starting 1 January 2017 and carried forward can be recognized to decrease profit tax base in the following tax periods in amount not exceeding 50% of the tax base.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductible, management of the Group believes it is probable that taxable profit will be available against which the deductible temporary difference will be utilized.

11. PROPERTY, PLANT AND EQUIPMENT

RUB thousand	Building and structures	Power transmission lines	Power conversion equipment	Other property, plant and equipment	Construction -in-progress	Total
Cost or Deemed cost						
Balance as at 1 January 2016	**7,009,161**	**30,361,447**	**16,169,935**	**7,093,769**	**2,488,108**	**63,122,420**
Additions and transfers	133,478	536,930	285,633	616,908	2,716,772	**4,289,721**
Putting into operation	457,257	1,415,646	1,263,964	154,234	(3,291,101)	-
Disposals and transfers	(18,083)	(14,977)	(16,692)	(43,533)	(101,146)	**(194,431)**
Balance as at 31 December 2016	**7,581,813**	**32,299,046**	**17,702,840**	**7,821,378**	**1,812,633**	**67,217,710**
Depreciation and impairment						
Balance as at 1 January 2016	**(2,407,812)**	**(15,005,625)**	**(6,034,748)**	**(4,063,212)**	**(137,158)**	**(27,648,555)**
Charge for the year	(323,736)	(1,836,862)	(1,016,733)	(725,447)	-	**(3,902,778)**
Impairment carry forward of losses	(7,770)	(10,212)	(58,026)	(6,455)	82,463	-
Impairment	(105,301)	(340,588)	(15,991)	(110)	(43,481)	**(505,471)**
Disposals	7,387	8,488	6,154	35,430	140	**57,599**
Balance as at 31 December 2016	**(2,837,232)**	**(17,184,799)**	**(7,119,344)**	**(4,759,794)**	**(98,036)**	**(31,999,205)**
Net book value as at 1 January 2016	**4,601,349**	**15,355,822**	**10,135,187**	**3,030,557**	**2,350,950**	**35,473,865**
Net book value as at 31 December 2016	**4,744,581**	**15,114,247**	**10,583,496**	**3,061,584**	**1,714,597**	**35,218,505**

RUB thousand	Building and structures	Power transmission lines	Power conversion equipment	Other property, plant and equipment	Construction-in-progress	Total
Cost or Deemed cost						
Balance as at 1 January 2015	**6,657,620**	**28,447,271**	**15,049,786**	**6,417,804**	**2,490,356**	**59,062,837**
Additions and transfers	(3,245)	7,178	(6,785)	8,033	4,512,182	**4,517,363**
Putting into operation	359,197	1,918,407	1,136,825	679,911	(4,094,340)	-
Disposals and transfers	(4,411)	(11,409)	(9,891)	(11,979)	(420,090)	**(457,780)**
Balance as at 31 December 2015	**7,009,161**	**30,361,447**	**16,169,935**	**7,093,769**	**2,488,108**	**63,122,420**
Depreciation and impairment						
Balance as at 1 January 2015	**(2,125,284)**	**(12,552,345)**	**(5,390,507)**	**(3,481,107)**	**(237,253)**	**(23,786,496)**
Charge for the year	(266,730)	(2,431,624)	(605,582)	(591,526)	–	**(3,895,462)**
Impairment	(16,495)	(30,635)	(46,325)	(6,106)	99,561	–
Disposals	697	8,979	7,666	15,527	534	**33,403**
Balance as at 31 December 2015	**(2,407,812)**	**(15,005,625)**	**(6,034,748)**	**(4,063,212)**	**(137,158)**	**(27,648,555)**
Net book value as at 1 January 2015	**4,532,336**	**15,894,926**	**9,659,279**	**2,936,697**	**2,253,103**	**35,276,341**
Net book value as at 31 December 2015	**4,601,349**	**15,355,822**	**10,135,187**	**3,030,557**	**2,350,950**	**35,473,865**

Borrowing cost included in cost of qualifying assets for the year ended 31 December 2016 amounted to RUB 49,333 thousand (for the year ended 31 December 2015: RUB 69,080 thousand).

As at 31 December 2016 prepayments for the acquisition of property, plant and equipment, net of VAT included in construction-in-progress amounted to RUB 24,488 thousand (as at 31 December 2015: RUB 39,907 thousand net of VAT).

In connection with identified impairment indicators, the Group performed impairment testing in respect of property, plant and equipment for special cash-generating units as at 31 December 2016.

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value.

Therefore the value in use for property, plant and equipment as at 31 December 2016 was determined using projected cash flows method. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

Cash-generating units are determined by the Group based on the geographical location of the branches and subsidiaries which are the smallest identifiable groups of assets that generate cash inflows independent of other assets of the Group.

The following key assumptions were used in assessing the recoverable amounts of the assets of cash-generating units:

- cash flows were projected based on the provisions of methodical instruction on testing power grid assets for impairment and recognition/reversal of impairment losses (approved by Order of PJSC IDGC North-West dated 30 December 2016 no. 845) and forecast data for a period:
  - until 2021 – for cash-generating units «Arkhenergo», «Kolenergo», «Komienergo»;
  - until 2022 – for cash-generating unit «Vologdaenergo»;
  - until 2026 – for cash-generating units «Karelenergo», «Novgorodenergo», «Pskovenergo».
- the forecast cash flows have been identified for the period 2017-2021 (for cash-generating units «Arkhenergo», «Kolenergo», «Komienergo»), 2017-2022 (for cash-generating unit «Vologdaenergo), 2017-2026 (for cash-generating units «Karelenergo», «Novgorodenergo», «Pskovenergo») based on the best estimate of the Group's management in respect of the electricity transmission volumes, operating expenses and capital expenditure, and tariffs approved by regulatory authorities for 2017. A longer forecast period for «Vologdaenergo», «Karelenergo», «Novgorodenergo» and «Pskovenergo» was chosen as the stable cash flows would not be achieved by the end of 2021. For these branches, the chosen forecast period from the date of impairment testing till the end of 5 years period following the latest year of the current approved tariff regulation period or other number of years when the use of other period is more appropriate for the impairment testing purpose.
- forecasted tariffs on electricity transmission services for the forecast period were estimated based on business plans (approved by the order of the Board of directors of IDGC North-West dated 28 December 2016 no. 837 «Approval of the business-plan for 2017 and the forecast for 2018-2021 of IDGC North-West and its subsidiaries», minutes no. 226/17 dated 23 December 2016), which were based on tariff models using average year increase of rate on electricity transmission services (in accordance with forecast on social and economic development of the Russian Federation for 2017 and planning period of 2018 and 2019);
- tariff growth rate in 2020-2026 are limited by forecast inflation growth rate of MED (until 2030);
- forecasted electricity transmission volumes were determined on the basis of the Company's annual business plans for 2017-2021;
- the cash flows forecasts were discounted to their present value using a nominal weighted average cost of capital in the amount of 10.91%;
- the growth rate of the net cash flows in the post-forecast period amounted to:
  - 3.3% for cash-generating units «Arkhenergo», «Vologdaenergo», «Kolenergo», «Komienergo»;
  - 3.0% for cash-generating units «Karelenergo», «Novgorodenergo», «Pskovenergo».

As at 31 December 2016 as a result of impairment testing the Group recognised impairment losses in the amount of RUB 505,471 thousand for the reporting period, including RUB 182,352 thousand related to cash-generating unit «Arkhenergo» and RUB 323,119 thousand related to cash-generating unit «Kolenergo».

12. INTANGIBLE ASSETS

RUB thousand	Software	Licenses and certificates	Total
Cost			
Balance as at 1 January 2016	**256,439**	**50,510**	**306,949**
Additions	86,333	3,908	**90,241**
Disposals	(43,982)	(11,936)	**(55,918)**

RUB thousand	Software	Licenses and certificates	Total
Balance as at 31 December 2016	**298,790**	**42,482**	**341,272**
Accumulated amortization			
Balance as at 1 January 2016	**(124,535)**	**(22,396)**	**(146,931)**
Charge for the year	(80,347)	(6,747)	**(87,094)**
Disposals	43,807	11,926	**55,733**
Balance as at 31 December 2016	**(161,075)**	**(17,217)**	**(178,292)**
Net book value as at 1 January 2016	**131,904**	**28,114**	**160,018**
Net book value as at 31 December 2016	**137,715**	**25,265**	**162,980**

	Software	Licenses and certificates	Total
Cost			
Balance as at 1 January 2015	**273,054**	**60,458**	**333,512**
Additions	46,661	16,191	**62,852**
Disposals	(63,276)	(26,139)	**(89,415)**
Balance as at 31 December 2015	**256,439**	**50,510**	**306,949**
Accumulated amortization			
Balance as at 1 January 2015	**(103,087)**	**(7,842)**	**(110,929)**
Charge for the year	(81,703)	(24,178)	**(105,881)**
Disposals	60,255	9,624	**69,879**
Balance as at 31 December 2015	**(124,535)**	**(22,396)**	**(146,931)**
Net book value as at 1 January 2015	**169,967**	**52,616**	**222,583**
Net book value as at 31 December 2015	**131,904**	**28,114**	**160,018**

13. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

Investments in securities and other financial assets as at 31 December 2016 and 2015 were:

RUB thousand	31 December 2016	31 December 2015
Available-for-sale investments, at fair value		
Equity securities	18,836	6,785
Loans and receivables, at amortized cost		
Restructured receivables from principal activities	44,361	107,799
Deposits (Note 17)	424,241	393,899
Long-term promissory notes	–	–
Other non-current receivables	72,667	58,250
Total	**560,105**	**566,733**

Equity securities represent investments in shares of OJSC TGC-1 and other securities, which are listed on MICEX and RTS, recorded at fair value.

The restructured receivables from core operations for electricity supply for prior periods, which were past-due and in respect of which the agreement to settle such receivables during several years was reached prior to 2015. All non-current receivables are denominated in roubles.

14. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2016 and 2015 were:

RUB thousand	31 December 2016	31 December 2015
Assets related to long-term post-employment benefits	440,425	475,524
VAT on non-current prepayments from customers	290,571	157,625
Other	2,224	1,591
Total	**733,220**	**634,740**

Assets related to long-term post-employment benefits represent balances on collective and individual accounts in Non-State Pension Fund of the Electric Power Industry (see Note 21). Those assets are not owned by the fund since under current contractual agreement with fund the Group can utilize contributions either by reducing future contributions, financing other plans or transferring assets to another fund at its own discretion.

The movement in the balance of assets related to the post-employment benefits for 2016 and 2015 were as follows:

RUB thousand	**31 December 2016**	**31 December 2015**
As at 1 January	475,524	517,519
Income on plan's assets	33,482	32,787
Employer's contributions	63,586	59,142
Other movements in accounts	6,901	8,128
Payments of benefits	(139,068)	(142,052)
As at 31 December	**440,425**	**475,524**

15. ACCOUNTS RECEIVABLE AND PREPAYMENTS

Accounts receivable and prepayments as at 31 December 2016 and 2015 were:

RUB thousand	31 December 2016	31 December 2015
Trade receivables	15,218,142	15,858,137
Other receivables	1,382,546	945,328
Less: allowance for doubtful debts	(2,553,566)	(1,590,522)
Subtotal financial assets	**14,047,122**	**15,212,943**
Prepayments	124,559	287,093
Total	**14,171,681**	**15,500,036**

All accounts receivable are denominated in roubles and relate to sales to enterprises located in Russian Federation. Accounts receivable include amounts due from related parties (Note 25).

All impaired receivables have been provided for. Management has determined an allowance for doubtful debtors based on specific customer identification, current court practice, customer payment discipline, subsequent receipts, and settlements and the analysis of expected future cash flows. Management believes that Group entities will be able to realize the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value approximates their fair value.

Accounts receivable from principal activities as at 31 December 2016 include RUB 1 923 369 thousand related to litigations with electricity sales companies (31 December 2015: RUB 2,200,443 thousand). During 2016 some of the litigations that existed as at 31 December 2015 were won by the Group, some were lost by the Group while others remained unresolved. Additionally the Group entered into a number of new similar litigations. The main reasons for the litigation are disagreements over the amount of power consumed, application of tariffs for electricity transmission and provision of power and delays in customers' payments.

Certain trade receivables and other accounts receivable have been restructured and are due to be realized more than one year from the end of reporting period (Note 13).

The ageing of receivables at the reporting date was:

RUB thousand	Gross 31 December 2016	Impairment 31 December 2016	Gross 31 December 2015	Impairment 31 December 2015
Not past due	4,335,344	(1,275)	3,677,445	–
Past due less than 3 months	2,990,554	(564)	3,668,195	–
Past due more than 3 months and less than 6 months	1,459,297	(246)	1,885,763	–
Past due more than 6 months and less than 1 year	2,463,534	(7,082)	4,162,984	(1,302)
Past due more than 1 year	5,351,959	(2,544,399)	3,409,078	(1,589,220)
	16,600,688	**(2,553,566)**	**16,803,465**	**(1,590,522)**

Based upon historic default rates, management of the Group believes that, apart from the above, no impairment allowance is necessary in respect of receivables.

Movement in the impairment allowance in respect of trade and other receivables:

RUB thousand	Year ended 31 December 2016	2015
Balance at the beginning of the year	**(1,590,522)**	**(2,159,811)**
Accrued allowance	(1,146,202)	(901,327)
Reversed allowance	37,213	299,828
Amounts written-off against provision as uncollectable receivables	145,945	1,170,788
Balance at the end of the year	**(2,553,566)**	**(1,590,522)**

In the statement of profit or loss and other comprehensive income, recognition of the allowance for impaired receivables was included in other operating expenses. The allowance account in respect of trade receivables is used to record impairment loss, except when, according to the management of the Group, the recovery of the amount due is impossible; at that point the amount is considered

irrecoverable and is written off against the financial asset directly.

16. INVENTORIES

Inventories, measured at cost, as at 31 December 2016 and 2015 were as follows:

RUB thousand	31 December 2016	31 December 2015
Spare parts and consumables for repairs	329,472	441,779
Emergency stock	176,382	172,639
Fuel and oils	154,418	127,706
Working clothes and fittings	84,932	112,102
Other inventories	67,036	80,282
Less: allowance for obsolete and slow-moving inventories	(5,087)	(9,011)
Total	**807,153**	**925,497**

As of 31 December 2016 there are no inventories pledged to secure bank loans and borrowings of the Group (Note 20) (31 December 2015: no).

17. LONG-TERM INVESTMENTS

As at 31 December 2016 the Group's long-term investments represent deposit placed in OJSC "Bank Tavrichesky" ("The Bank") in the amount of RUB 2,080,000 thousand at the rate of 0.51% per annum with maturity 12 April 2035 (as at 31 December 2015: RUB 2,080,000 thousand).

At the end of 2014 the Bank faced serious financial difficulties and stopped customer service. In February of 2015 the Bank was taken under temporary administration of GK Deposit Insurance Agency ("ASV"). In March of 2015 in order to protect the interests of depositors and other creditors of the Bank, ASV carried out the selection of investor which suggested the most favorable funding of the action plan to prevent the Bank from going into bankruptcy. As a result of the tender procedure, OJSC AKB International Finance Club ("Investor") was selected as the investor for the Bank.

A feature of this project of reorganization is the participation of major creditors of the Bank: PJSC "Lenenergo" and PJSC "IDGC of North-West", providing co-funding of actions reorganization. In view of the aforesaid ASV allocated 28 billion roubles at the expense at the bank of Russia with maturity of 10 years to facilitate the Bank financial restructuring. In accordance with the plan of restructuration of the bank's obligations to JSC "IDGC of North-West" the full amount of the deposit (including accrued interest for the use of the deposit) was back on the company's account in April of 2015. At the same time for the purposes of financial rehabilitation the amount of RUB 2,080,000 thousand has been placed to the Bank on a 20 years subordinated deposit with an interest payable on a quarterly basis at a rate of 0.51% per annum. In addition, before July 2022 there is a plan to reorganize the Bank in the form of its merger with the Investor.

Currently, ASV exercises the complete control over the process of financial recovery of the Bank based on the general agreement between the Investor, the Bank, PJSC "Lenenergo" and PJSC "IDGC of North-West", this agreement contemplating the provision of comprehensive information on the Bank's financial position.

The Bank actively utilizes the funds of the Bank of Russia, thus facilitating the improvement of its financial performance indicators and guaranteeing the Bank's ability to meet its liabilities to creditors.

The analysis of the Bank's financial operations and prior year statistical data indicate at the stabilization of the Bank's the financial position and the mitigation of the negative trends that might

impact the Bank's financial stability in future. 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 31 December 2016 the financial investments (subordinated deposit) with undetermined current market value are measured at their fair value. The fair value of the Group's debt 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 debt taking into consideration industry, market, financial and other risks, including investment risk. As at 31 December 2016, the allowance amounted to RUB 1,655,759 thousand (at 31 December 2015: RUB 1,686,101 thousand).

The Group formed the deferred tax asset from provision for impairment loss of financial investments in accordance with IAS 12 Income Taxes. As at 31 December 2016 the value of this deferred tax asset amounted to RUB 331,152 thousand (as at 31 December 2015: RUB 337,220 thousand).

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2016 and 2015 were as follows:

RUB thousand	31 December 2016	31 December 2015
Current bank accounts denominated in roubles	349,495	60,586
Specific bank accounts	7,944	6,040
Other cash and cash equivalents	4,180	4,621
Total	**361,619**	**71,247**

The Group has accounts in several Russian banks, including PJSC "Sberbank Rossii", Bank GPB (SC), Bank VTB (PJSC), Alfa-Bank (OJSC), SC "AB Rossiya". Management believes that they all are reliable counterparties with a stable position on the Russian market and no impairment allowance is necessary.

19. EQUITY

Authorised, issued and fully paid share capital

As at 31 December 2016 authorised and issued share capital comprised 95,785,923,138 ordinary shares (31 December 2015: 95,785,923,138 ordinary shares) of which all ordinary shares were issued and fully paid. All shares have a par value of RUB 0.1.

Common control combination reserve

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.

Retained earnings and dividends

On 08 June 2016, at the annual general meeting of shareholders of PJSC "IDGC of North-West" dividends were declared in the amount of 50% of net profit for the year 2015 as recorded in the IFRS financial statements in the total amount of 407,473 thousand roubles. In 2015 dividends were not declared.

Dividends for 2012 in the amount of 221 thousand roubles have been recovered into retained earnings as at 31 December 2016 after expiration of three years period of limitation due to absence of requisites in the shareholders register.

Voting rights of shareholders

The holders of fully paid ordinary shares are entitled to one vote per share at the Company's annual and general shareholders' meetings.

Earnings per share

Earnings per share were calculated using the weighted average number of ordinary shares. The Group has no dilutive potential ordinary shares; accordingly, diluted earnings per share are equal to basic earnings per share (in 2016 earnings per share was 0.0066 RUB, in 2015 - 0.0073 RUB).

20. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings measured at amortised cost.

RUB thousand	31 December 2016	31 December 2015
Non-current liabilities		
Unsecured bank loans	14,319,493	9,940,611
	14,319,493	**9,940,611**
Current liabilities		
Current portion of unsecured bank loans	151,610	5,103,846
Unsecured bank loans	322,199	100,319
	473,809	**5,204,165**

Loans are attracted at market interest rates. Annual interest rates are equivalent to effective interest rates.

The effective interest rate is the market rate for loan agreements including additional agreements in force at the balance-sheet date and for fixed rate loans, representing a current market rate for floating rate loans. The Group has no hedging arrangements to manage interest rate exposure.

The Group has no floating rate loans.

Information about the Group's exposure to interest rate and foreign currency risk is presented in Note 29.

All loans and borrowings are denominated in Russian roubles.

As at 31 December 2016 and 31 December 2015 there are no inventories pledged to secure bank loans and borrowings.

Terms of debt repayment and payment schedule

Terms and conditions of outstanding loans were as follows:

			31 December 2016	31 December 2015	31 December 2016		31 December 2015	
RUB thousand	**Currency**	**Year of maturity**	**Effective interest rate**	**Effective interest rate**	**Nominal amount**	**Carrying amount**	**Nominal amount**	**Carrying amount**
Unsecured bank loans								
Unsecured bank loans*	RUB	2016	-	7.01%-12.54%	-	-	5,204,165	5,204,165
Unsecured bank loans	RUB	2017	9,85%-10,70%	11.80%	344,424	344,424	1,600,000	1,600,000
Unsecured bank loans*	RUB	2017	11,90%	10.00%	129,386	129,386	200,000	200,000
Unsecured bank loans*	RUB	2018	9,80%-12,42%	8.06%-12.50%	13,469,492	13,469,492	8,140,611	8,140,611
Unsecured bank loans*	RUB	2019	9,80%	-	850,000	850,000	-	-
Total debt					**14,793,302**	**14,793,302**	**15,144,776**	**15,144,776**

*- Loans from state-controlled entities

21. RETIREMENT BENEFIT OBLIGATIONS

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan and defined benefit pension plan; and
- defined benefit pension plans regulated by Collective Agreements that include lump sum benefits for pensioners, benefits paid in connection with the jubilee dates birthday of employees and pensioners, and financial support for pensioners, one-time benefits paid in case of death.

The tables below provide information about the employee defined benefit obligations and actuarial assumptions used for the periods ended 31 December 2016 and 2015.

The amounts recognised in the consolidated statement of financial position are as follows:

	31 December 2016	31 December 2015
Net value of post-employment obligation under defined benefit plans	1,640,352	1,673,133
Net value of other long-term employee benefit obligation	122,089	116,974
Total net defined benefit liability	**1,762,441**	**1,790,107**

The movement in the net defined benefit obligation over the year is as follows:

RUB thousand	Post-employment benefits	Other long-term employee benefit obligation	Total
As at 1 January 2016	1,673,133	116,974	1,790,107
Current service cost	66,166	10,104	76,270
Past service cost and curtailments			
Interest expense	140,187	9,627	149,814
Remeasurement:			
Loss on change in financial actuarial assumptions	(4,842)	(400)	(5,242)
Gain from change in financial actuarial assumptions	(23,717)	(3,090)	(26,807)
Experience adjustment losses	(13,100)	4,518	(8,582)
Contributions to plan	(197,475)	(15,644)	(213,119)
As at 31 December 2016	**1,640,352**	**122,089**	**1,762,441**

RUB thousand	Post-employment benefits	Other long-term employee benefit obligation	Total
As at 1 January 2015	1,523,981	96,544	1,620,525
Current service cost	58,082	8,061	66,143
Past service cost and curtailments	(9,323)	(911)	(10,234)
Interest expense	158,974	10,003	168,977
Remeasurement:			
Loss on change in financial actuarial assumptions	5,616	625	6,241
Gain from change in financial actuarial assumptions	104,923	12,539	117,462
Experience adjustment losses	28,100	3,300	31,400
Contributions to plan	(197,220)	(13,187)	(210,407)
As at 31 December 2015	**1,673,133**	**116,974**	**1,790,107**

Expenses recognized in profit or loss:

RUB thousand	Year ended 31 December 2016	2015
Service cost (Note 8)	76,270	55,909
Remeasurement of other long-term employee benefit obligation	1,028	16,464
Interest expense (Note 9)	149,814	168,977
Total expense recognised in profit or loss	**227,112**	**241,350**

Expenses recognized in other comprehensive income

RUB thousand	Year ended 31 December 2016	2015
Loss on change in demographic actuarial assumptions	(4,842)	5,616
Gain from change in financial actuarial assumptions	(23,717)	104,923
Experience adjustment losses	(13,100)	28,100
Total gain/ (loss) recognised in other comprehensive income	**(41,659)**	**138,639**

The movement of remeasurement of obligations in other comprehensive income during the year is as follows

RUB thousand	Year ended 31 December 2016	2015
As at 1 January	**(264,824)**	**(403,463)**
Remeasurement	(41,659)	138,639
At 31 December	**(306,483)**	**(264,824)**

The key actuarial assumptions are as follows:

Financial assumptions	**31 December 2016**	**31 December 2015**
Discount rate (nominal)	8,5%	9.5%
Inflation rate	4,7%	6.0%
Future salary increases (nominal)	4,7%	6.0%

Demographic assumptions	**31 December 2016**	**31 December 2015**
Expected retirement age		
Male	60	60
Female	55	55
Employee turnover	4,7%	4.80%
Mortality table	2011	2011

The sensitivity of the defined benefit obligation to changes in the key actuarial assumptions is as follows:

	Change in assumption	Impact on liability
Discount rate	Increase / decrease by 0.5%	Decrease/ Increase by 2.24%
Future salary increases	Increase / decrease by 0.5%	Increase / decrease by 1.71%
Future benefits increases (inflation)	Increase / decrease by 0.5%	Increase / decrease by 1.61%
Employee turnover	Increase / decrease by 10%	Decrease/ Increase by 0.82%
Mortality level	Increase / decrease by 10%	Decrease/ Increase by 0.33%

The above sensitivity analysis is based on reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant.

The Group expects to contribute RUB 66,660 thousand to its defined benefit pension plans in 2017.

As at 31 December 2016, weighted average duration of post-employment and other long term employee benefits was 6.1 years and 11.5 years, respectively.

22. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2016 and 31 December 2015 were as follows:

RUB thousand	31 December 2016	31 December 2015
Advances from customers	1,904,852	1,033,317
Long-term accounts payable	121,151	101,303
Total	**2,026,003**	**1,134,620**

23. ACCOUNTS PAYABLE AND ADVANCES RECEIVED

Accounts payable and advances received as at 31 December 2016 and 31 December 2015 were as follows:

RUB thousand	31 December 2016	31 December 2015
Accounts payable - principal activities	4,109,281	5,901,893
Advances received	3,146,770	2,892,258
Unsettled liabilities for the acquisition of property, plant and equipment	1,785,818	2,053,157
Payables to employees	884,853	863,046
including provision for unused vacations and bonuses	*512,617*	*504,890*
Dividends payable	5,673	1,351
Other payables	331,041	291,552
Total	**10,263,436**	**12,003,257**

No interest was charged on the outstanding balance for trade and other payables during credit period. All payables are RUB-denominated.

Provisions for unused vacations and bonuses as at 31 December 2016 and 31 December 2015 were as follows:

RUB thousand	31 December 2016	31 December 2015
As at 1 January	**504,890**	**413,784**
Accrual of provision	1,145,887	1,109,036
Reversal of provision	(3,767)	–
Utilization of provision	(1,134,393)	(1,017,930)
Total	**512,617**	**504,890**

The unused vacation provision was determined by reference to the number of unused vacation days as at the reporting date and the employees' annual average pay rates.

The provision for annual bonus is an estimate of expense for the 2016 performance bonus payment.

The provisions established as at 31 December 2016 are expected to be used in 2017.

24. CURRENT PROVISIONS

	Provision for litigations and claims	
RUB thousand	31 December 2016	31 December 2015
As at 1 January	**201,586**	**137,980**
Accrual of provision	143,583	137,511
Reversal of provision	(152,892)	(30,389)
Utilization of provision	(132,798)	(43,516)
Total	**59,479**	**201,586**

The provisions established as at 31 December 2016 are expected to be used in 2017.

25. RELATED PARTIES TRANSACTIONS

Control relationships

The Government of the Russian Federation, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Group. As at 31 December 2016 the Group was controlled by PJSC Russian Grids, a state controlled entity (see Note 1).

Management remuneration

There are no transactions or balances with key management and close family members except for their remuneration in the form of salary and bonuses. Total key management remuneration which was included in personnel expenses amounted to:

	Year ended 31 December	
RUB thousand	2016	2015
Salaries and annual bonuses	242,014	180,806
Pension and benefits on retirement	2,460	(1,048)

Transactions with state-controlled entities

In the course of its operating activities the Group is engaged in significant transactions with state-controlled entities. Revenues and purchases from state-controlled entities are measured at regulated tariffs where applicable, in other cases revenues and purchases are measured at normal market prices.

Revenues from state-controlled entities for the year ended 31 December 2016 constitute 12,04% (for the year ended 31 December 2015: 12.4%) of total Group revenues and 12,12% (for the year ended 31 December 2015: 9.2%) of power transmitting revenue.

Electricity transmission fees due to state-controlled entities for the year ended 31 December 2016 constitute 76,25% (for the year ended 31 December 2015: 55.1%) of total power transmitting services costs.

Cash and cash equivalents in state-controlled banks for the year ended 31 December 2016 constitute 44,24% (for the year ended 31 December 2015: 93.6%) of total cash and cash equivalents.

Significant loans from state controlled entities are disclosed in Note 20.

Pricing policies

Related party revenue for power transmitting is based on the tariffs determined by the Federal Service on Tariffs and the Regional Energy Commission.

26. CONTINGENCIES

Political environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Insurance

The insurance market in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not widely spread in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, and land transport as well as accident, health and medical insurance for employees. Furthermore, the Group has arranged for third party liability insurance in respect of potential effects related to usage of dangerous production facilities.

As at 31 December 2016 the Group has insured its main production assets with the insurance coverage of RUB 46,584,006 thousand (as at 31 December 2015: RUB 45,671,247 thousand) and vehicles below 10 years of age with the insurance coverage of RUB 605,030 thousand (as at 31 December 2015: RUB 522,913 thousand).

Apart from this, the Group does not have full coverage for its production facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material

adverse effect on the Group's operations and financial position.

Litigations

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

Taxation contingencies in Russian Federation

The 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 during the 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 tough 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 provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Environmental matters

The Group and its predecessors have operated in the electric power 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 continually being reconsidered. The Group entities periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Disagreements with counterparties

The Group believes that all its sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. Disagreements between the Group and its counterparties on to the amount of mutual obligations are normally proceeded in courts.

Disagreements appear due to different approaches to electricity volume's calculation, tariffs (prices) applied by the Group and its counterparties and disagreements regarding electric power transmitted via "last-mile" grid. Disagreements on the volume of electricity distributed impact the volume of electric power the Group has to acquire from sales companies to compensate electricity losses.

Often the Group comes to an amicable agreement with its counteragents regarding the reimbursement of electric power losses in case of disagreements related to electricity transmission services.

The Group recognise allowance for doubtful debts for receivables on electricity transmission services challenged by customers and provision for counterparties' claims for reimbursement of electric power acquired to compensate electricity losses in case of adverse court precedents outcomes for the same/similar court cases for distribution companies took place in the past.

Capital expenditure commitments

As at 31 December 2016, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment of RUB 1,690,094 thousand (as at 31 December 2015: RUB 2,188,811 thousand).

27. OPERATING LEASE ARRANGEMENTS

The Group mainly leases land from municipal authorities. The leases provide an option to renew the lease after the end of lease term. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

	Year ended 31 December	
RUB thousand	**2016**	**2015**
Rental land payments	52,495	52,980
Other rental payments	117,070	117,454
Total	**169,565**	**170,434**

Non-cancellable operating lease rentals are payable as follows:

RUB thousand	**31 December 2016**	**31 December 2015**
Less than one year	65,164	57,337
Between one and five years	210,163	179,919
More than five years	1,439,335	1,279,376
Total	**1,714,662**	**1,516,632**

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to their quoted closing bid price;
- The fair value of other financial assets and financial liabilities is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.
- The fair value of cash, short-term loans and receivables, trade and other payables and short-term borrowings approximate their carrying amounts as at 31 December 2016 largely due to the short-term maturities of these instruments.

	Fair value measurement			
	Total	Using quotation in active markets (Level 1)	Using significant observable inputs (Level 2)	Using significant unobservable inputs (Level 3)
31 December 2016				
Available-for-sale financial assets	18,836	18,836	–	–
Long-term account receivables	44,361	–	–	44,361
Long-term deposits	424,241	–	–	424,241
Loans and borrowings with fixed interest rate	14,542,884	–	–	14,542,884
31 December 2015				
Available-for-sale financial assets	6,785	6,785	–	–
Long-term account receivables	107,799	–	–	107,799
Long-term deposits	393,899	–	–	393,899
Loans and borrowings with fixed interest rate	14,217,010	–	–	14,217,010

The fair value of financial assets recognised in the consolidated statement of financial position at fair value (refer to Notes 13 and 29) was determined based on quoted closing bid prices on MICEX at the reporting date (Level 1 of fair value measurement hierarchy in accordance with IFRS 7).

29. FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risks.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

(a) Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Industry risks

Industry risk is caused by the changes in economic condition of the industry and the extent of these changes within the industry as well as in comparison with other industries. Industry risk is mainly

related to credit risk and have direct impact on it.

The legislation in the Russian Federation regulating electric power transmission is in a developing state, and is characterised by frequent changes and subject to varying interpretation. Because of these reasons, various interpretations of the legislation and contractual terms relatively often take place between electricity market participants, which results in disagreements under various grounds and entail the following risks:

- Risk of the significant increase in overdue accounts receivable and growth of bad debts for electricity transmission services, particularly with sale companies regarding industry legislation treatment in respect of electricity transmission services settlements.
- Risk of reduction of the volume of services provided due to termination (non-prolongation) of Unified National Electricity Network grids rent arrangements with PJSC "FGC UES" (last mile contracts), which may arise from changes in the regulatory and legislative frameworks.

The Group undertakes the following activities in order to minimize the above mentioned risks:

- monitoring agreement terms compliance and timely response to disputable matters as well as initiation and prolongation of grids' rent agreements with PJSC "FGC UES";
- monitoring electricity balances (in natural units) and analysis of actual amount of electricity losses and the volume of electricity transmitted including electricity volumes transmitted to customers connected via grids leased under last mile agreements with PJSC "FGC UES" and excluding these volumes;
- continuous analysis of reasons for disagreements with customers, including disagreements regarding the volume of electricity transmitted;
- court proceedings by the Group in respect of disagreement cases when customers challenge grids' transmitting spots ownership of the Group in order to accumulate precedents of positive court outcomes on such issues.

Major categories of financial instruments

The Group holds a number of financial instruments with specific characteristics and financial risk factors associated with them. The Group's principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and loans given, cash and cash equivalents, and promissory notes.

Financial instruments per categories as at 31 December 2016 and 31 December 2015 were as follows:

Financial assets per category	**31 December 2016**	**31 December 2015**
Available-for-sale financial assets		
Available-for-sale investments	18,836	6,785
Loans and receivables		
Trade and other receivables	14,047,122	15,212,943
Deposits	–	–
Cash and cash equivalents		
Cash and cash equivalents	361,619	71,247

Financial assets per category	31 December 2016	31 December 2015
Total financial assets	**14,427,577**	**15,290,975**

Financial liabilities per category	31 December 2016	31 December 2015
Financial liabilities at amortized cost		
Loans and borrowings	(14,793,302)	(15,144,776)
Accounts payable	(6,231,813)	(8,247,953)
Total financial liabilities	**(21,025,115)**	**(23,392,729)**

(c) Credit risk

Credit risk is the risk that a counterparty will default on its obligations to the Group, leading to financial losses to the Group. Credit risk arises from cash and cash equivalents, deposits with banks as well as credit exposure to customers, including outstanding unsecured trade and other receivables. The carrying amount of financial assets represents the maximum credit exposure.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. Credit limits attributable to customers are regularly reviewed (at least on an annual basis). Of the receivables balance as at 31 December 2016, the Group's ten largest customers (individually 1% and above of the total balance) represent 47% (31 December 2015: 43%) of the outstanding balance.

The credit risk arising from the other financial assets of the Group, which include cash and cash equivalents, arises from the risk of default of the counterparty, with the maximum exposure being equal to the carrying value of these instruments.

Offsetting of financial assets and liabilities

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognized amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

The following table sets out the carrying amounts of recognized financial instruments that are subject to the above agreements.

RUB thousand	Trade and other receivables	Trade and other payables
31 December 2016		
Net amounts presented in the statement of financial position	2,474,356	4,827,701
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1,594,629)	(1,594,629)
Amounts related to financial collateral (including cash collateral)	–	–
Net amount	**879,727**	**3,233,072**

RUB thousand	Trade and other receivables	Trade and other payables
31 December 2015		
Net amounts presented in the statement of financial position	1,461,102	6,150,720
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(510,958)	(510,957)
Amounts related to financial collateral (including cash collateral)	–	–
Net amount	**950,144**	**5,639,763**

The net amounts presented in the statement of financial position disclosed above form part of trade and other receivables and trade and other payables, respectively. Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Available loan facilities

As at 31 December 2016 the Group has available loan facilities (unutilised credit lines) of RUB 12,191,284 thousand (31 December 2015: RUB 8,088,956 thousand).

Liquidity analysis

The following are the contractual maturities of financial liabilities, including estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 December 2016	Carrying amount	Contractual cash flows	Up to 6 months	6 months-1 year	1-2 years	2-3 years
Non-derivative financial liabilities						
Loans and borrowings	14,793,302	10,596,384	511,771	661,750	9,422,863	–
Accounts payable	6,231,813	6,231,813	6,231,813	–	–	–
Total	**21,025,115**	**16,828,197**	**6,743,584**	**661,750**	**9,422,863**	–

RUB thousand

31 December 2015	Carrying amount	Contractual cash flows	Up to 6 months	6 months-1 year	1-2 years	2-3 years
Non-derivative financial liabilities						
Loans and borrowings	15,144,776	17,883,526	1,405,349	4,997,277	2,860,967	8,619,933
Accounts payable	8,247,953	8,247,953	8,247,953	–	–	–
Total	**23,392,729**	**26,131,479**	**9,653,302**	**4,997,277**	**2,860,967**	**8,619,933**

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's profit or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The foreign currency transactions, undertaken by the Group, are minimal and thus the Group has limited exposure to foreign currency risk.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be at fixed or variable rates.

However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model.

Under the loan agreements to which the Group is a party, in the event of a significant change in the Bank of Russia key rate the Group's lenders may unilaterally raise the rates on the committed loan facilities. Consequently, an increase in interest rates associated with insufficient liquidity in the banking system may have a strong effect on the financial and economic activities of the Group.

To mitigate interest rate risks, the Group: provides for increases in interest rates in its business plans; has long-term revolving facility agreements under which interest rates may only increase if the Bank of Russia refinancing rate changes; initiates open competitive tenders to select lending service providers, so that the Group is able to borrow on the most favourable terms.

(f) Capital risk management

The Group manages its capital to ensure that all entities of the Group will be able to continue as a going concern in the foreseeable future while maximising the return to the equity holder through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. There were no changes to the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30. EVENTS AFTER THE REPORTING PERIOD

After 31 December 2016 there were no events that might materially affect the financial position of the Group.