



Interregional Distribution Grid (IDG) Company of North-West

Consolidated Interim Condensed Financial Statements
for the nine months ended 30 September 2016
(Unaudited)



Contents

CONSOLIDATED CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	3
CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION	5
CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY	7
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS	8
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS	10
1. THE GROUP AND ITS OPERATIONS	11
2. BASIS OF PREPARATION	12
3. SIGNIFICANT ACCOUNTING POLICIES	13
4. GROUP SUBSIDIARIES	13
5. OPERATING SEGMENTS	14
6. REVENUE AND GOVERNMENT SUBSIDIES	17
7. OPERATING EXPENSES	17
8. PROPERTY, PLANT AND EQUIPMENT	18
9. EQUITY AND RESERVES	19
10. LOANS AND BORROWINGS	20
11. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES	21
12. COMMITMENTS AND CONTINGENCIES	21
13. FINANCIAL RISK MANAGEMENT	22

**ROSSETI**Interregional
Distribution
Grid Company
of the North-West

Consolidated Condensed Statement of Profit or Loss and Other Comprehensive Income for the 9 months ended 30 September 2016 (Unaudited)

(in thousands of Russian roubles, except share and per share data)

	Notes	For the nine months ended 30 September	
		2016	2015
Revenue	6	32,122,354	30,178,519
Government subsidies		3,578	3,183
Operating expenses	7	(31,432,319)	(29,209,359)
Other income, net		626,828	658,851
Result from operating activities		1,320,441	1,631,194
Finance costs, net		(1,222,623)	(1,244,114)
Profit before income tax		97,818	387,080
Income tax expense		(1,144)	(93,384)
Profit for the period		96,674	293,696
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of available-for-sale financial assets		4,264	(864)
Income tax on items that are or may be reclassified subsequently to profit or loss		(853)	175
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		<i>3,411</i>	<i>(689)</i>
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of the defined benefit liability		(83,655)	(93,430)
Income tax on items that will never be reclassified to profit or loss		16,731	18,686
<i>Total items that will not be reclassified to profit or loss</i>		<i>(66,924)</i>	<i>(74,744)</i>
Other comprehensive loss for the period, net of income tax		(63,513)	(75,433)
Total comprehensive income for the period		33,161	218,263

The accompanying notes on pages 11 to 22 are an integral part of these consolidated interim condensed financial statements.

**ROSSETI**Interregional
Distribution
Grid Company
of the North-West

Consolidated Condensed Statement of Profit or Loss and Other Comprehensive Income for the 9 months ended 30 September 2016 (Unaudited)

(in thousands of Russian roubles, except share and per share data)

	Notes	For the nine months ended 30 September	
		2016	2015
Profit attributable to:			
Equity holders of the Company		96,765	293,671
Non-controlling interests		(91)	25
Profit for the period		96,674	293,696
Total comprehensive income attributable to:			
Equity holders of the Company		33,252	218,238
Non-controlling interests		(91)	25
Total comprehensive income for the period		33,161	218,263
Profit earnings per share			
Basic and diluted earnings per share (expressed in RUB)		0,0003	0,0023
Weighted average number of ordinary shares in issue	9	95,785,923,138	95,785,923,138

General Director

Chief Accountant

14 November 2016



A.V. Letyagin

I.G. Zhdanova

The accompanying notes on pages 11 to 22 are an integral part of these consolidated interim condensed financial statements.

**ROSSETI**Interregional
Distribution
Grid Company
of the North-West

Consolidated Condensed Statement of Financial Position as at 30 September 2016 (Unaudited)

(in thousands of Russian roubles)

	Notes	30 September 2016	31 December 2015
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	35,027,196	35,473,865
Intangible assets		129,371	160,018
Deferred tax assets		8,290	8,395
Investment in securities and other financial assets		554,726	566,733
Other non-current assets		697,175	634,740
TOTAL NON-CURRENT ASSETS		36,416,758	36,843,751
CURRENT ASSETS			
Accounts receivable and prepayments		13,519,484	15,500,036
Income tax receivable		238,806	32,055
Inventories		1,089,040	925,497
Other current assets		825,208	528,340
Cash and cash equivalents		247,803	71,247
TOTAL CURRENT ASSETS		15,920,341	17,057,175
TOTAL ASSETS		52,337,099	53,900,926
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	9	9,578,592	9,578,592
Retained earnings		2,791	313,499
Merger reserve	9	10,457,284	10,457,284
Other reserves		149,118	212,632
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		20,187,785	20,562,007
Non – controlling interests		264	355
TOTAL EQUITY		20,188,049	20,562,362

The accompanying notes on pages 11 to 22 are an integral part of these consolidated interim condensed financial statements.

**ROSSETI**Interregional
Distribution
Grid Company
of the North-West

Consolidated Condensed Statement of Financial Position as at 30 September 2016 (Unaudited)

(in thousands of Russian roubles)

	Notes	30 September 2016	31 December 2015
NON-CURRENT LIABILITIES			
Long-term loans and borrowings	8	11,696,493	9,940,611
Retirement benefit obligations		1,898,816	1,790,107
Deferred tax liabilities		1,809,615	1,881,690
Other non-current liabilities		1,574,653	1,134,620
TOTAL NON-CURRENT LIABILITIES		16,979,577	14,747,028
CURRENT LIABILITIES			
Accounts payable and advances received		10,486,216	12,003,257
Income tax payable		223	78,008
Current taxes payable		990,083	1,104,520
Current loans and borrowings	8	3,641,185	5,204,165
Current provisions		51,766	201,586
TOTAL CURRENT LIABILITIES		15,169,473	18,591,536
TOTAL LIABILITIES		32,149,050	33,338,564
TOTAL EQUITY AND LIABILITIES		52,337,099	53,900,926

General Director

Chief Accountant

14 November 2016

A.V. Letyagin

I.G. Zhdanova

The accompanying notes on pages 11 to 22 are an integral part of these consolidated interim condensed financial statements.



Consolidated Condensed Statement of Changes in Equity for the nine months ended 30 September 2016 (Unaudited)

(in thousand of Russian roubles)

	Attributable to equity holders of the Company						
	Share capital	Retained earnings	Merger reserve	Other reserves	Total	Non-controlling interests	Total equity
Balance at 01 January 2015	9,578,592	(501,356)	10,457,284	324,199	19,858,719	324	19,859,043
Total comprehensive income for the period							
<i>Income for the period</i>	-	293,671	-	-	293,671	25	293,696
<i>Other comprehensive income for the period</i>	-	-	-	(75,433)	(75,433)	-	(75,433)
Total comprehensive income for the period	-	293,671	-	(75,433)	218,238	25	218,263
Transactions with owners, recorded directly in equity							
Dividends to equity holders	-	-	-	-	-	-	-
Balance at 30 September 2015	9,578,592	(207,685)	10,457,284	248,766	20,076,957	349	20,077,306
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 for the period							
<i>Profit for the period</i>	-	96,765	-	-	96,765	(91)	96,674
<i>Other comprehensive loss</i>	-	-	-	(63,513)	(63,513)	-	(63,513)
Total comprehensive income for the period	-	96,765	-	(63,513)	33,252	(91)	33,161
Transactions with owners, recorded directly in equity							
Dividends to equity holders	-	(407,473)	-	-	(407,473)	-	(407,473)
Balance at 30 September 2016	9,578,592	2,791	10,457,284	149,118	20,187,785	264	20,188,049

**ROSSETI**Interregional
Distribution
Grid Company
of the North-West

Consolidated Condensed Statement of Cash Flows

for the nine months ended 30 September 2016 (Unaudited)

(in thousands of Russian roubles)

	For the nine months ended 30 September	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the period	96,674	293,696
<i>Adjustments for non-cash transactions:</i>		
Income tax expense recognised in profit or loss	1,144	93,384
Net finance costs	1,222,623	1,244,114
Provisions/(reversal of provisions) for account receivables	378,402	288,366
Depreciation and amortisation of non-current assets	2,989,381	2,988,947
Profit/(loss) from disposal of PPE	6,408	(9,130)
Provision for inventory obsolescence	(1,919)	(619)
Other non-cash loss	98,465	36,316
Operating cash flows before changes in working capital and provisions	4,791,178	4,935,074
<i>Working capital changes</i>		
Change in accounts receivable and prepayments	1,950,054	(1,348,484)
Change in inventories	(161,624)	(332,093)
Change in other current assets	(296,868)	(59,500)
Change in retirement benefit obligations and related assets	106,622	-
Change in accounts payable, advances received and provisions	(137,134)	(204,305)
Cash generated by operations	6,252,228	2,990,692
Interest paid	(1,135,749)	(1,206,341)
Income tax paid	(329,005)	(447,496)
Contributions to benefit pension plan	(105,073)	(101,684)
Net cash generated by operating activities	4,682,401	1,235,170

The accompanying notes on pages 11 to 22 are an integral part of these consolidated interim condensed financial statements.

**ROSSETI**Interregional
Distribution
Grid Company
of the North-West

Consolidated Condensed Statement of Cash Flows

for the nine months ended 30 September 2016 (Unaudited)

(in thousands of Russian roubles)

	For the nine months ended 30 September	
	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property, plant and equipment	293	1,919
Purchase of property, plant and equipment and other non-current assets	(4,193,152)	(2,126,835)
Interest received	40,158	336,915
Proceeds from disposal of financial investments and repayment of deposit	4,600	-
Payments for financial investments	(5,000)	-
Other investment income received	304	920,250
Net cash used in investing activities	(4,152,797)	(867,752)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans and borrowings	11,348,798	9,435,634
Repayments of loans and borrowings	(11,298,930)	(9,662,558)
Dividends paid	(402,916)	52
Net cash used in financing activities	(353,048)	(226,872)
Net decrease in cash and cash equivalents	176,556	140,546
Cash and cash equivalents at the beginning of the period	71,247	1,038,530
Cash and cash equivalents at the end of the period	247,803	1,179,076

The accompanying notes on pages 11 to 22 are an integral part of these consolidated interim condensed financial statements.



ROSSETI



Interregional
Distribution
Grid Company
of the North-West



Notes to the Consolidated Interim Condensed Financial Statements

for the nine months ended 30 September 2016 (Unaudited)



ROSSETI



Interregional
Distribution
Grid Company
of the North-West



I. THE GROUP AND ITS OPERATIONS

Background

Public Joint-Stock Company Interregional Distribution Grid Company of North-West (“IDGC of North-West” or the “Company”) was established in December 2004 in accordance with the laws of the Russian Federation. The Company was formed during the process of re-organization of JSC “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, Leningradskaya oblast, 188300, the Russian Federation. The Company’s main offices are at Constitution Square, building 3 “A”, Saint Petersburg, 196247, the 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 Interregional Distribution Grid Company incorporated IDGC of North-West with seven branches, located in territory of seven federal subject of North-West regional: The Karelya Republic, The Komi Republic, Arkhangelsk Region, Vologda Region, Murmansk Region, Novgorod Region, Pskov Region, 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: JSC “Karelenergo”, JSC “AEK Komienergo”, JSC “Arkhenenergo”, JSC “Vologdaenergo”, JSC “Kolenergo”, JSC “Novgorodenergo”, JSC “Pskovenergo”, 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.

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred its 55.4% of the Company’s shares to JSC IDGC Holding, a state-controlled entity. On 4 April 2013 in accordance with decision of General stockholders meeting JSC IDGC Holding has been formally renamed 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 which is under the influence of the Russian Government. The government of the Russian Federation directly affects the Group’s operations through state tariffs.

In accordance with legislation, the Group’s tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commissions.

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 the capital required to maintain and expand current capacity.



ROSSETI



Interregional
Distribution
Grid Company
of the North-West



As at 22 February 2013 the Ministry of Energy of the Russian Federation assigned the Company with the status of guaranteeing electric power supplier in-charge of the service area of OJSC “Kolskaya Energy Retail Company” effective from 1 March 2013. As at 22 March 2013 the Ministry of Energy of the Russian Federation assigned the Company with the same status in respect of the service area of OJSC “Novgorodoblenergosbyt” effective from 1 April 2013.

The status of guaranteeing supplier in both cases is assigned for the period till the assigning of guaranteeing supplier status to the winner of the tender in respect of specified service area, but not more than for the period of 12 months.

The Group established separate unit within its Kolenergo and Novgorodenergo branches for the purpose of energy sales activities. The assigning of guaranteeing supplier status does not entail the change in assets, liabilities and equity of the Group at the date of status assignment. Financial information of these segments are disclosed in Note 5.

As at 01 January 2014 guaranteeing electric power supplier function in Novgorod region of the service area of OJSC “Novgorodoblenergosbyt” was assigned to another company by Ministry of Order № 912 issued on as at 23 December 2013.

On 1 February 2015 guaranteeing electric power supplier in-charge function in Murmansk region of the service area of OJSC “Kolenergosbyt” was assigned to OJSC “AtomEnergoSbyt” by Ministry of Energy Order № 14 issued on 23 January 2015, the sales of electricity in the Murmansk region has been discontinued within the boundaries zone of OJSC “Kolenergosbyt”.

Russian business environment

The Group’s operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated interim condensed financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*. It does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2015.

The Group companies maintain their accounting records in Russian Roubles (“RUB”) in accordance with the accounting and reporting regulations of the Russian Federation. Russian statutory accounting principles and procedures differ substantially from those generally accepted under IFRS. Accordingly, the consolidated interim condensed financial statements, which have been prepared using the Group’s statutory accounting records, reflect adjustments necessary for such consolidated financial statements to be presented in accordance with IFRS.



ROSSETI



Interregional
Distribution
Grid Company
of the North-West



Basis 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 of 1 January 2007 by an independent appraiser to determine deemed cost as part of the adoption of IFRSs.

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 RUB has been rounded to the nearest thousand.

Use of estimates

In the application of the Group’s accounting policies management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

In preparing this consolidated interim condensed financial report significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended 31 December 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in this consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2015.

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



ROSSETI



Interregional
Distribution
Grid Company
of the North-West



5. OPERATING SEGMENTS

The Management Board of the Company has been determined as the Group Chief Operating Decision-Maker.

The Group's primary activity is the provision of electricity transmission services and energy retail 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 analyzes 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, Komienenergo, Novgorodenergo and Pskovenergo;
- Energy Retail Segments – Kolenergo, Novgorodenergo; Pskovenergosbyt;
- Other Segments – other Group companies.

Unallocated balances comprise mainly of corporate assets (primarily the Group headquarters), including cash balances, obligations on loans, deferred income tax assets and liabilities.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those for 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
- differences in accounting for deferred tax.

Reconciliation of items measured as reported to the Management Board with similar items in these consolidated interim condensed 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 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 9 months ended 30 September 2016 are presented below:

	Transmission						Energy Retail				Total		
	Arkh energo	Vologd aenergo	Karel energo	Kol energo	Komi energo	Novgorod energo	Pskov energo	Kolenergo	Novgorod energo	Pskov- energosbyt		Other Segments	Unallocated
Revenues													
Power transmitting	3,420,040	4,940,681	5,303,664	4,690,368	5,008,555	2,902,901	302,020	-	-	-	-	-	26,568,229
Connection to power network	141,904	22,598	25,954	8,859	75,750	12,542	34,980	-	-	-	-	-	322,587
Sale of electricity	-	-	-	-	-	-	-	-	-	4,728,700	-	-	4,728,700
Other revenue	217,799	39,188	119,299	20,111	40,857	19,224	31,247	-	-	10,229	4,884	-	502,838
Intersegment revenue	-	-	39	-	-	-	2,497,534	-	-	352,668	213,558	29	3,063,828
Total revenues	3,779,743	5,002,467	5,448,956	4,719,338	5,125,162	2,934,667	2,865,781	-	-	5,091,597	218,442	29	35,186,182
Profit/(loss) before income tax	(466 672)	233,294	121,423	(64,404)	(86,056)	76,514	64,869	-	-	3,961	(3,656)	-	(120,727)
As at 30 September 2016:													
Total assets	8,571,968	11,591,435	4,941,737	4,711,732	13,129,472	6,395,383	5,159,980	1,307,668	3,597	749,187	80,438	1,820,557	58,463,154
<i>Including property, plant and equipment</i>	<i>3,822,561</i>	<i>8,738,292</i>	<i>3,377,630</i>	<i>3,425,055</i>	<i>11,088,172</i>	<i>5,155,380</i>	<i>4,477,362</i>	<i>-</i>	<i>-</i>	<i>112</i>	<i>13,110</i>	<i>37,115</i>	<i>40,134,789</i>



Segment results for the 9 months ended 30 September 2015 are presented below:

	Transmission					Energy Retail				Total				
	Arkh energo	Vologd aenergo	Karel energo	Kol energo	Komi energo	Novgorod energo	Pskov energo	Kolenergo	Novgorod energo		Pskov- energosbyt	Other Segments	Unallocated	
Revenues														
Power transmitting	3,394,409	4,831,450	4,932,058	3,498,086	4,840,672	2,491,856	178,014	-	-	-	-	-	24,166,545	
Connection to power network	63,613	12,857	27,410	58,900	70,208	10,528	67,863	-	-	-	-	-	311,378	
Sale of electricity	-	-	-	-	-	-	-	946,178	-	4,234,208	-	-	-	5,180,386
Other revenue	202,039	107,948	95,889	22,731	42,009	20,450	23,603	-	-	-	-	-	514,669	
Intersegment revenue	-	-	32	-	-	-	2,290,983	-	-	289,862	184,743	-	2,765,620	
Total revenues	202,039	4,952,255	5,055,390	3,579,717	4,952,889	2,522,834	2,560,462	946,178	-	4,524,070	184,743	-	32,938,598	
Profit/(loss) before income tax	61,153	335,624	173,268	(23,788)	(109,587)	(335,152)	(48,577)	108,883	-	3,871	(2,193)	-	163,502	
As at 30 September 2015:														
Total assets	8,406,369	12,446,915	6,056,249	4,917,002	12,821,238	6,465,224	5,204,263	1,822,638	5,019	703,312	77,437	2,710,464	61,636,128	
<i>Including property, plant and equipment</i>	<i>4,020,956</i>	<i>9,033,980</i>	<i>3,652,702</i>	<i>3,290,809</i>	<i>10,111,350</i>	<i>5,567,541</i>	<i>4,540,143</i>	<i>-</i>	<i>-</i>	<i>262</i>	<i>5,973</i>	<i>45,213</i>	<i>40,268,930</i>	



The reconciliation of profit before income tax measured as reported to the Management Board with similar item in these consolidated interim condensed financial statements is presented below:

	For the nine months ended 30 September	
	2016	2015
Segment results – profit/(loss) before income tax	(120,727)	163,502
Adjustment for depreciation of property, plant and equipment	118,659	220,761
Adjustments for financial costs	42,383	12,712
Intragroup dividends	(10,660)	(1,691)
Other adjustments	68,163	(8,204)
Profit before income tax per Consolidated Condensed Statement of Profit or Loss and Other Comprehensive Income	97,818	387,080

6. REVENUE AND GOVERNMENT SUBSIDIES

	For the nine months ended 30 September	
	2016	2015
Power transmitting	26,568,230	24,166,545
Sale of electricity	4,728,700	5,180,806
Connection to power network	322,587	311,378
Other revenue	502,837	519,790
Total revenue	32,122,354	30,178,519
Government subsidies	3,578	3,183
Total revenue	32,125,932	30,181,702

7. OPERATING EXPENSES

	For the nine months ended 30 September	
	2016	2015
Power transmitting services	10,156,802	9,007,902
Salaries and other personnel expenses	8,339,522	7,789,181
Electric purchases for resale	2,393,761	2,562,100
Depreciation and amortization of non-current assets	2,989,381	2,988,947
Electric purchases to cover losses	3,010,761	2,657,507
Raw materials used	1,420,539	1,259,191
Network and equipment repair services	531,934	551,829
Taxes other than income tax	363,973	314,579



	For the nine months ended 30 September	
	2016	2015
Electricity and heat power for own needs	184,253	140,414
Telecommunication and information services	147,397	166,094
Impairment of trade and other receivables	378,402	290,709
Other operating expenses	1,515,595	1 480,906
Итого операционные расходы	31,432,319	29,209,359

8. PROPERTY, PLANT AND EQUIPMENT

	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
<i>Cost/Deemed cost</i>						
Opening 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	(1,827)	-	1,003	824	2,468,396	2,468,396
Putting into operation	110,881	922,979	483,572	269,764	(1,787,195)	-
Disposals	(1,157)	(3,085)	(7,836)	(13,369)	-	(25,447)
Closing balance as at 30 September 2015	6,765,517	29,367,164	15,526,525	6,675,023	3,171,557	61,505,786
Opening balance as at 1 January 2015	(1,630,338)	(9,675,319)	(3,988,622)	(2,631,521)	-	(17,925,800)
Charge for the period	(224,324)	(1,531,597)	(695,006)	(552,942)	-	(3,003,869)
Impairment carry forward of losses	-	-	-	-	-	-
Disposals	1,946	3,211	3,464	19,045	-	27,666
Closing balance as at 30 September 2015	(1,852,716)	(11,203,705)	(4,680,164)	(3,165,418)	-	(20,902,003)
Net book value as at 1 January 2015	4,221,941	16,482,586	9,652,444	3,353,019	2,205,440	35,915,430
Net book value as at 30 September 2015	4,450,371	15,944,109	9,431,002	2,998,222	3,240,942	36,064,646
<i>Cost/Deemed cost</i>						
Opening 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	2,032	204,336	92,615	131,153	2,058,964	2,489,100
Putting into operation	86,303	550,690	172,408	53,205	(862,606)	-
Disposals	(1,330)	(4,449)	(9,181)	(28,557)	12,931	(30,586)
Closing balance as at 30 September 2016	7,096,166	31,112,024	16,425,777	7,249,570	3,697,397	65,580,934



	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
<i>Accumulated depreciation and impairment</i>						
Opening 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 period	(240,084)	(1,378,229)	(759,757)	(549,619)	-	(2,927,689)
Impairment carry forward of losses	(22)	(1,238)	(81)	(3,902)	5,243	-
Disposals	30,159	3,887	2,694	(14,234)	-	22,506
Closing balance as at 30 September 2016	(2,617,759)	(16,381,205)	(6,791,892)	(4,630,967)	(131,915)	(30,553,738)
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 30 September 2016	9,713,925	47,493,229	23,217,669	11,880,537	3,829,312	35,027,196

9. EQUITY AND RESERVES

Basis of presentation of movements in equity

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting, the principal component of the net equity recognized for the group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets.

Authorised, issued and fully paid share capital

As at 30 September 2016 authorised and issued share capital comprised 95,785,923,138 ordinary shares (31 December 2015: 95,785,923,138) of which all ordinary shares were issued and fully paid. All shares have a par value of RUB 0.1.

Merger reserve

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting, the principal component of net equity recognized for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Based on the application of predecessor accounting, the difference between the value of the share capital issued and the IFRS carrying values of the contributed assets and non-controlling interests was recorded as a merger reserve within equity.

Retained earnings and dividends

The Company's statutory financial statements form the basis for the distribution of profit and other appropriations. Due to differences between statutory accounting principles and IFRS, the Company's profit in the statutory accounts can differ significantly from that reported in the consolidated interim condensed financial statements prepared under IFRS.



In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles.

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 Company has no dilutive potential ordinary shares; accordingly, diluted earnings per share are equal to basic earnings per share. (9 months ended 30 September 2016 earnings per share 0,0023 RUB; 9 months ended 30 September 2015 – 0,0014 RUB).

10. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group’s loans and borrowings and financial lease liabilities, which are measured at amortised cost.

	30 September 2016	31 December 2015
<i>Non-current liabilities</i>		
Unsecured bank loans	11,696,493	9,940,611
	11,696,493	9,940,611
<i>Current liabilities</i>		
Current portion of unsecured loans	3,439,859	5,103,846
Unsecured bank loans	201,326	100,319
	3,641,185	5,204,165

The Group raised the following bank loans during the 9 months ended 30 September 2016:

Amount	Interest rate	Maturity
1,203,152	11,90%-14,70%	2016
3,658,646*	10,15% - 13,00%	2016
200,000*	10,55%	2017
4,400,000*	10,50-12,50%	2018
887,000	11,40%	2019
1,000,000	11,80%	2021

The Group repaid the following significant bank facilities during the 9 months ended 30 September 2016:

	Amount
Loans*	5,880,230
Loans	5,418,700

*- Loans from state-controlled entities.



11. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

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 30 September 2016 the Group was controlled by JSC Russian Grids, a state controlled entity.

Transactions with state-controlled entities

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

Revenue from state-controlled entities for the 9 months ended 30 September 2016 constitute 10.59% (9 months ended 30 September 2015: 10.2%) of total Group revenue, including 10.47% (9 months ended 30 September 2015: 9.1%) of electricity transmission revenues.

Electricity transmission cost due to for state-controlled entities for the 9 months ended 30 September 2016 constitute 60.85% (9 months ended 30 September 2015: 48.40%) of total transmission costs.

Significant loans from state controlled entities are disclosed in Note 10.

Pricing policies

Related party revenue for electricity transmission and energy retail is based on the tariffs determined by the Federal Service on Tariffs and the Regional Energy Commissions.

12. COMMITMENTS AND CONTINGENCIES

Political environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection. Because of the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings, are not predictable.

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 assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management 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.

Litigation

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.

Capital expenditure commitments

As at 30 September 2016 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment of RUB 1,201,138 thousand (as at 31 December 2015: RUB 2,188,811 thousand).

Environmental matters

Group entities and their predecessor entities 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. 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.

Insurance policies

The Russian insurance market is in the development stage and some forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, and land transport and purchased accident, health and medical insurance for employees. Furthermore, the Group has purchased civil liability coverage for operating entities with dangerous production units.

As at 30 September 2016 the Group has insured its industrial assets for the amount of RUB 46,584,006 thousand (as at 31 December 2015: RUB 45,671,247 thousand). Also, as at 30 September 2016 the Group has insured vehicles below 10 years of age for the amount of RUB 605,030 thousand (as at 31 December 2015: RUB 522,913 thousand).

13. FINANCIAL RISK MANAGEMENT

During the period the Group had been exposed to the same risks as those which existed during the year ended 31 December 2015, and applied the same approach to financial risk management that was applied during the year ended 31 December 2015.