

**Consolidated financial statements
of Public Joint Stock Company Interregional Distribution Grid Company of
North-West and its subsidiaries
prepared in accordance with International Financial Reporting Standards
for the year ended 31 December 2017,
and auditor's report**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Interregional Distribution Grid Company of North-West, Public Joint Stock Company (PJSC "IDGC of North-West ")

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 2017, 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 2017, 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 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 2017 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 Notes 2, 13 and 14 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 2017, 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, 9, 18 and 27 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 7 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.

Provisions and contingent liabilities of the Group are disclosed in Notes 26 and 30 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report of PJSC IDGC of North-West for 2017 and the quarterly report of the issuer PJSC IDGC of North-West for the 1st quarter of 2018, but does not include the consolidated financial statements and our auditor's report thereon. The annual report of PJSC IDGC of North-West for 2017 and the quarterly report of the issuer for the 1st quarter of 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

When we are acquainted with the annual report of PJSC IDGC of North-West for 2017 or the quarterly report of the issuer PJSC IDGC of North-West for the 1st quarter of 2018, if we conclude that there are material misstatements therein, we are required to communicate the matter to those charged with governance.

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 statements, 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

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



N.A. Dantser

Engagement Leader on the audit resulting in this independent auditor's report

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

N.N. Usanova

Audited entity:

Interregional Distribution Grid Company of North-West, Public Joint Stock Company (abbreviated name - **PJSC IDGC of North-West**);

Location: Constitution square, 3, lit. A, room 16N, St. Petersburg, 196247, Russian Federation

Primary state registration number – 1047855175785.

Auditor:

RSM RUS Ltd.

Location: 4, Pudovkina St., 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.

Interregional Distribution Grid Company of North-West
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017
(in thousand of Russian rubles, unless otherwise stated)

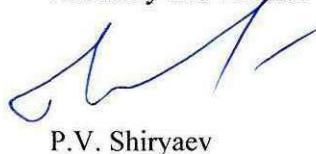
	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	7	47,869,112	45,545,785
Operating expenses	9	(50,368,497)	(44,323,957)
Other income, net	8	1,332,812	1,209,693
Results from operating activities		(1,166,573)	2,431,521
Finance income	11	126,083	128,966
Finance costs	11	(1,571,883)	(1,799,421)
Net finance costs		(1,445,800)	(1,670,455)
(Loss)/profit before income tax		(2,612,373)	761,066
Income tax benefit/(expense)	12	440,119	(176,430)
(Loss)/profit for the year		(2,172,254)	584,636
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in fair value of available-for-sale financial assets	15	(3,484)	12,156
Income tax related to items that may be reclassified subsequently to profit or loss	12	697	(2,431)
Total items that may be reclassified subsequently to profit or loss		(2,787)	9,725
<i>Items that will never be reclassified subsequently to profit or loss</i>			
Remeasurements of the defined benefit liability	24	(323,919)	41,659
Income tax related to items that will never be reclassified subsequently to profit or loss	12	64,783	(8,332)
Total items that will not be reclassified subsequently to profit or loss		(259,136)	33,327
Other comprehensive (loss)/income for the year, net of income tax		(261,923)	43,052
Total comprehensive (loss)/income for the year		(2,434,177)	627,688
(Loss)/profit attributable to:			
Owners of the Company		(2,172,229)	584,644
Non-controlling interest		(25)	(8)
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(2,434,152)	627,696
Non-controlling interest		(25)	(8)
(Loss)/earnings per share			
Basic and diluted (loss)/earnings per ordinary share (in RUB)	21	(0.0254)	0.0066

These consolidated financial statements were approved by management on 14 March 2018 and were signed on its behalf by:

General Director


A.V. Letyagin

Deputy General Director for
Economy and Finance


P.V. Shiryaev

Chief Accountant


I.G. Zhdanova

PJSC IDGC of North-West
Consolidated Statement of Financial Position as at 31 December 2017
(in thousand of Russian rubles, unless otherwise stated)

	<u>Notes</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
ASSETS			
Non-current assets			
Property, plant and equipment	13	37,267,819	35,218,505
Intangible assets	14	206,972	162,980
Trade and other receivables	18	146,169	409,821
Assets related to employee benefits plans	24	414,244	440,427
Financial investments	15	472,667	443,077
Deferred tax assets	16	10,258	8,664
Total non-current assets		38,518,129	36,683,474
Current assets			
Inventories	17	785,535	807,153
Income tax prepayments		2,111	34,050
Trade and other receivables	18	8,990,103	14,920,407
Cash and cash equivalents	19	84,471	361,619
Total current assets		9,862,220	16,123,229
Total assets		48,380,349	52,806,703
EQUITY AND LIABILITIES			
Equity	20		
Share capital		9,578,592	9,578,592
Reserve related to business combination		10,457,284	10,457,284
Other reserves		(6,239)	255,684
Retained earnings		(1,792,510)	490,891
Total equity attributable to owners of the Company		18,237,127	20,782,451
Non-controlling interest		322	347
Total equity		18,237,449	20,782,798
Non-current liabilities			
Loans and borrowings	22	8,522,335	14,319,493
Trade and other payables	25	1,049,082	2,026,003
Employee benefit liabilities	24	2,116,145	1,762,441
Deferred tax liabilities	16	884,362	1,804,707
Total non-current liabilities		12,571,924	19,912,644
Current liabilities			
Loans and borrowings	22	5,811,561	473,809
Trade and other payables	25	11,611,538	11,438,885
Provisions	26	27,363	59,479
Current income tax liabilities		120,514	139,088
Total current liabilities		17,570,976	12,111,261
Total liabilities		30,142,900	32,023,905
Total equity and liabilities		48,380,349	52,806,703

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

PJSC IDGC of North-West
Consolidated Statement of Cash Flows for the year ended 31 December 2017
(in thousand of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit for the year		(2,172,254)	584,636
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment and amortization of intangible assets	9	4,108,596	3,989,555
Impairment of property, plant and equipment	13	–	505,471
Finance costs	11	1,571,883	1,799,421
Finance income	11	(126,083)	(128,966)
Loss on disposal of property, plant and equipment		54,902	37,105
Impairment of accounts receivable	9	5,368,409	1,108,988
Bad debt write-off		49,266	99,715
Accounts payable write-off		(6,995)	(4,431)
Gain from property, plant and equipment received free of charge		(6,038)	(18,412)
Other non-cash transactions		10,962	7,447
Income tax (benefit)/expense		(440,119)	176,430
Cash flows from operating activities before changes in working capital and provisions		8,412,529	8,156,959
<i>Changes in working capital</i>			
Change in trade and other receivables (less impairment provision)		503,272	212,725
Change in financial assets related to employee benefits plans		26,182	35,098
Change in inventories (less provision for impairment of inventories)		21,618	119,126
Change in trade and other payables		(745,645)	(691,238)
Change in employee benefit liabilities		353,704	(27,666)
Change in provisions		(32,116)	(142,105)
Other		(102,756)	(157,185)
Cash flows from operating activities before income tax and interest paid		8,436,788	7,505,714
Income tax paid		(402,294)	(192,674)
Interest paid		(1,513,083)	(1,695,399)
Net cash from operating activities		6,521,411	5,617,641

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

PJSC IDGC of North-West
Consolidated Statement of Cash Flows for the year ended 31 December 2017
(in thousand of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(6,230,695)	(4,625,227)
Proceeds from the sale of property, plant and equipment and intangible assets		11,996	1,533
Disposal of financial investments and withdrawal of bank deposits		341	–
Interest received		10,742	47,832
Dividends received		421	304
Net cash used in investing activities		(6,207,195)	(4,575,558)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		47,967,575	17,478,462
Repayment of loans and borrowings		(48,446,581)	(17,826,929)
Dividends paid		(110,425)	(403,244)
Repayment of finance lease liabilities		(1,933)	–
Net cash used in financing activities		(591,364)	(751,711)
Net (decrease)/increase in cash and cash equivalents		(277,148)	290,372
Cash and cash equivalents at the year beginning		361,619	71,247
Cash and cash equivalents at the year end	19	84,471	361,619

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

PJSC IDGC of North-West
Consolidated Statement of Changes in Equity for the year ended 31 December 2017
(in thousand of Russian rubles, unless otherwise stated)

	Equity attributable to owners of the Company						
	Share capital	Reserve related to business combination	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2016	9,578,592	10,457,284	212,632	313,499	20,562,007	355	20,562,362
Profit for the year	-	-	-	584,644	584,644	(8)	584,636
Other comprehensive income	-	-	53,815	-	53,815	-	53,815
Income tax related to other comprehensive income	-	-	(10,763)	-	(10,763)	-	(10,763)
Total comprehensive income for the year	-	-	43,052	584,644	627,696	(8)	627,688
Transactions with owners of the Company							
Dividends to shareholders (Note 21)	-	-	-	(407,473)	(407,473)	-	(407,473)
Balance at 31 December 2016	9,578,592	10,457,284	255,684	490,670	20,782,230	347	20,782,577
Balance at 1 January 2017	9,578,592	10,457,284	255,684	490,891	20,782,451	347	20,782,798
Loss for the year	-	-	-	(2,172,229)	(2,172,229)	(25)	(2,172,254)
Other comprehensive loss	-	-	(327,403)	-	(327,403)	-	(327,403)
Income tax related to other comprehensive loss	-	-	65,480	-	65,480	-	65,480
Total comprehensive loss for the year	-	-	(261,923)	(2,172,229)	(2,434,152)	(25)	(2,434,177)
Transactions with owners of the Company							
Dividends to shareholders (Note 21)	-	-	-	(111,188)	(111,188)	-	(111,188)
Balance at 31 December 2017	9,578,592	10,457,284	(6,239)	(1,792,526)	18,237,111	322	18,237,433

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

1 Background

(a) The Group and its operations

Public Joint Stock Company Interregional Distribution Grid Company of North-West (hereinafter referred to as PJSC "IDGC of North-West" or the "Company") was established in December 2004 in accordance with the laws of the Russian Federation. The Company was formed 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.

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

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

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

The parent company is PJSC "ROSSETI".

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

(b) Russian business environment

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

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

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

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

(c) Relations with state

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

As at 31 December 2017, the Russian Government owned 88.04% in the share capital of the parent company PJSC "ROSSETI" including 88.89% of the voting ordinary shares and 7.01% of the preference

shares (as at 31 December 2016: 87.90%, including 88.75% of the voting ordinary shares and 7.01% of the preference shares).

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

2 Basis of preparation of consolidated financial statements

(a) Statement of compliance

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

Each subsidiary of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Russian Accounting Standards ("RAS"). The Group's consolidated financial statements are based on the statutory records with adjustments and reclassifications recorded in the consolidated financial statements for the fair presentation in accordance with IFRS.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except for investments classified as available-for-sale financial assets that have been measured at fair value.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian ruble (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.

(d) Use of professional judgments and estimates

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

Assumptions and estimates made on their basis are continually evaluated to determine the necessity to change them. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected by these changes.

Professional judgements that have the most significant effect on the amounts recognised in these Consolidated Financial Statements and estimates and assumptions that may require significant adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Impairment of fixed assets. At each reporting date, the Group management assesses whether there are any indicators that fixed assets may be impaired. Such indicators include changes in business plans, tariffs and other factors that may lead to unfavourable conditions for the Group's activities. When value in use calculations are undertaken, management estimates the expected future cash flow from the asset or cash generation unit and chooses suitable discount rate in order to calculate the present value of those cash flows.

Impairment of accounts receivable. Provision for impairment of accounts receivable is based on management assumptions of debt recovery made for each debtor individually. Objective indicators of impairment are as follows: default or debtor failure to meet contractual obligations, debt restructuring to

the Group under such terms that would have never been taken in regular conditions, signs of possible bankruptcy, unfavourable change in debtors paying capacity.

Future cash flows in respect of receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Pension obligations. The costs of defined benefit pension plans and related costs of the pension program are determined using actuarial valuations. The actuarial estimates involve making demographic assumptions as well as financial assumptions. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Deferred tax assets recognition. At each reporting date management assesses the deferred tax assets to be reflected in the consolidated financial statement to the extent in which it is likely to be used as tax allowances. When determining future taxable profit and related tax allowances management uses estimates and assumptions based on prior periods' taxable profit and expectations related to the future profit that are reasonable under the circumstances.

(e) Implementation of new and revised standards and interpretations

In 2017, the Group adopted all IFRS and amendments to IFRS which are effective from 1 January 2017 and relevant to its operations. None of them had material impact on the Group's consolidated financial statements.

The following new standards and interpretations have been issued that are effective for annual periods beginning on or after 1 January 2018, and which the Group has not early adopted:

IFRS 9 Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early application permitted. This standard will not have any material effect on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers. This Standard was issued in May 2014. The new revenue standard supersedes all current revenue recognition requirements under IFRS. 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. Either a full retrospective application or modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early application is permitted. This standard will not have any material effect on the consolidated financial statements.

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The Group can choose to apply the standard using either a retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is considering the implication of this standard for its consolidated financial statements

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

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Transfers of Investment Property (Amendments to IAS 40).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- IFRIC 23 Uncertainty over Income Tax Treatments.

(f) Change in presentation

Reclassification of comparatives

The Group changed presentation in the comparative financial statements items to comply with the current period presentation. The format of reporting was changed for the purpose of transparency and information capacity. In particular, notes (9, 10, 11, 15, 18, 19, 25, 31) break up into smaller units and added new notes (8, 21). All reclassifications are immaterial.

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.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which the Group obtains control.

The Group measures goodwill at the acquisition date as:

- 1) The fair value of the consideration transferred; plus
- 2) The recognized amount of any non-controlling interests in the acquiree; plus

3) The fair value of the pre-existing equity interest in the acquiree if the business combination is achieved in stages; less

4) The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss for the period.

Transaction costs that the Group incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss for the period.

(iii) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners, and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

(iv) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for by the method the predecessor. The acquired assets and liabilities are recognized at the carrying amounts recognized previously in the financial statements of the acquired entities. Any cash or other contribution paid for the acquisition is recognized directly in equity.

(v) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment also includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognized in profit or loss for the period, except for differences arising on the retranslation of equity instruments classified as available-for-sale financial assets which are recognized in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments include cash and cash equivalents, investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are originated at fair value. All other financial assets are recognized initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes 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. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Non-derivative financial assets include: loans and receivables, cash and cash equivalents, available-for-sale financial assets and held for maturity financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Receivables are presented inclusive of value-added tax.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and highly liquid investments with maturities at initial recognition of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Financial assets held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity financial assets. After initial measurement, held to maturity financial assets are measured at amortised cost using the effective interest rate, less impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories of financial assets. Such assets are recognized 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 recognized in other comprehensive income and presented within equity in other reserves.

When an investment is derecognized or impaired, the cumulative gain or loss within equity is transferred to profit or loss for the period. Unquoted equity instruments whose fair value cannot reliably be measured are carried at the acquisition cost less impairment losses at the end of each reporting period. Available-for-sale financial assets comprise equity securities.

(iii) Non-derivative financial liabilities

The Group initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Other financial liabilities comprise loans and borrowings, finance lease liabilities, trade and other payables. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(d) Share capital

Ordinary shares are classified as equity.

(e) Property, plant and equipment

(i) Recognition and measurement

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 (built) assets includes the cost of materials and direct labor, 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 capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant 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.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net in the item "Net other income/(expenses)", within the profit or loss for the period.

(ii) Subsequent costs

The cost of replacing part (major component) of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the statement of profit or loss and other comprehensive income as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an 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. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

- Buildings 7-50 years
- Transmission networks 7-33 years
- Equipment for electricity transmission 5-29 years
- Other assets 1-50 years

Estimated useful lives and residual values of property, plant and equipment are reviewed at each reporting date and adjusted if appropriate.

(f) Intangible assets

(i) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the statement of profit or loss and other comprehensive income as incurred.

(iii) Amortization

Amortization expense on intangible assets, other than goodwill is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives of intangible assets for the current and comparative periods are as follows:

- Licenses and certificates 1-5 years
- Software 3-15 years

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as financial leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum (discounted) lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the consolidated statement of the Group's financial position.

(h) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost is determined on the weighted average cost 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.

Net realizable value is the estimated selling price in the ordinary course of business of the Group, less the estimated costs of completion and selling expenses.

(i) Advances given

Advances given are classified as non-current if they are connected with the acquisition of an asset which will be classified as non-current upon initial recognition. Advances given for the acquisition of an asset are included in its carrying amount upon the acquisition of control over the asset, and when it is probable that the Group will obtain economic benefit from its usage.

(j) Value-added tax

Output value-added tax (VAT) related to sales is payable to the tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. Amounts of VAT related to advances received and given as well as VAT prepayment are recognized on a net basis within accounts receivable (VAT recoverable). Amounts of VAT to be paid to the tax authorities are presented separately within short-term liabilities.

Where a provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(k) Impairment of assets

(i) Financial assets

A financial asset 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, economic conditions that correlate with defaults, or the disappearance of an active market for a security. 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.

An impairment loss with respect to a financial asset measured at amortized 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 recognized in profit or loss and

reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. In the event of any subsequent event that leads to a decrease in the value of the impairment loss, the recovered amount of previously allocated to impairment, loss is recognized in profit or loss for the period.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized in profit or loss for the period.

Changes in impairment provisions attributable to the 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 recognized in profit or loss for the period, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss for the period. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(ii) 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 goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit (CGU) is presented as the greater of its two values: value in use of the asset (this unit) and its fair value less cost 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 or CGU. 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 CGU. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units which it related to.

The Group's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Costs of corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized with respect to cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the CGU (group of CGU) on a pro rata basis.

An impairment loss with respect to goodwill is not reversed. With respect to other assets, impairment losses recognized 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 amortization) if no impairment loss had been recognized.

(l) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan differing from a defined contribution plan. The Group's net obligation with respect to 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. Determined using such method benefit is discounted to determine its present value, and the fair value of any plan assets is 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.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognized 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 then-net defined benefit liability, 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 recognized in profit or loss. Actuarial gains and losses on changes in actuarial assumptions are recognized in other comprehensive income/expense.

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 recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Other non-current employee benefits

The Group's net obligation with respect to long-term employee benefits other than pension plans is 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. 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 using the projected unit credit method. Remeasurements are recognized in profit or loss in the period in which they arise.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably and it is highly probable that there will be an outflow of economic benefits.

(m) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(n) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

(i) Electricity transmission and sales services

Revenue from electricity transmission is recognized based on acts of services rendered. The act is prepared for each counterparty in accordance with the concluded contract on the provision of services based on the meter readings and the "boiler" tariffs. The tariffs for the distribution of electricity (in respect to all constituent entities of the Russian Federation) and sale of electricity on the regulated market (in respect of the Russian Federation constituent entities, not united in the price zones of the wholesale electricity market) are approved by the executive authorities of the constituent entities of the Russian Federation (hereinafter - regional regulatory authority) in the sphere of the state energy tariff regulation within the range of cap and (or) floor tariffs approved by the Federal Antimonopoly Service of the Russian Federation.

Revenue from the sale of electricity is recognized based on:

- monthly acts of acceptance of electricity under the electricity supply agreements (electricity sale agreements) of legal entities, based on the meter readings and unregulated prices formed on the retail market in the settlement period;
- monthly documents (receipts) on the consumption of utilities services by individuals based on the meter readings and tariffs approved by the regional regulatory authority.

Revenue from the resale of electricity and capacity which is sold under power supply contracts includes the part of revenue related to the transmission of electricity. The tariff for the sale of electricity under power supply contracts is calculated with the transmission fee taken into account.

(ii) Services for technological connection to electric grids

Regional regulatory authority approves payment for technological connection according to individual project, as well as standardized tariff rates and rates per unit of maximum supplied power on the basis of which the territorial network organization calculates the fee for technological connection to electric networks.

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

Revenue from technological connection to power grids is calculated on the basis of the size of payment for technological connection determined in accordance with the legislation of the Russian Federation in the electricity sector.

Revenue for technological connection to the power network is recognized on the basis of the acts of acceptance of technological connection. In cases where under the terms of the contracts technological connection to power grids is performed in stages, revenue is recognized upon completion of stages of services.

(iii) Other revenue

Revenue from installation, repair and maintenance services and other sales is recognized when the services are provided or when the significant risks and rewards of ownership of the goods have passed to the buyer.

(o) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all the attached conditions will be complied with. When the grant relates to an expense item, it is recognized 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 recognized as income, less the related expenses, in equal amounts over the expected useful life of the related asset.

Government grants that compensate the Group for low electricity tariffs (lost income) are recognized in the consolidated statement of profit or loss and other comprehensive income in the same periods in which the respective revenue is earned.

(p) Other expenses

(i) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. The amount of lease incentives received reduces the total lease expenses over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At the inception of an arrangement, the Group determines whether such an arrangement is or contains indicators of a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other considerations required by such an arrangement into those for the lease and those for other elements proportionately to their fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset contract. Subsequently the liability is reduced as payments are made and an imputed finance expense is recognized.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large without creating constructive obligations to provide such benefit in the future and are not restricted to the Group's employees, they are recognized in the income statements as incurred. Group costs related to the financing of social programs, without making a commitment with respect to such financing in the future date are recognized in the consolidated statement of profit or loss and other comprehensive income as they arise.

(q) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, discounts on financial instruments, and foreign currency gains. Interest income is recognized as it accrues in profit or

loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs are comprised of interest expense on borrowings, financial leasing, foreign currency losses, discounts on financial instruments and impairment losses recognized on financial assets other than trade receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs, depending on whether foreign currency movements are in a net gain or net loss position.

(r) Income tax expense

Income tax expense is comprised of current income tax and deferred tax. Current and deferred income tax is recognized in profit or loss for the period, except to the extent that it relates to a business combination, or transactions recognized in other comprehensive income or directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income tax payable with respect to previous years.

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination, and that affects neither accounting nor taxable profit or loss;
- Temporary differences relating to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- Taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group accrues tax liabilities for open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions, and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(s) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS 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.

(t) Segment reporting

The Group determines and presents operating segments based on internal information provided to the Management Board of the Company, which is the Group's chief operating decision-making body.

An operating segment is a component of the Group that engages in business activities and 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. The operating results of operating segments for which discrete financial information is available are reviewed regularly by the Management Board so that it can make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly the Company revenue, expenses, assets and liabilities.

Segment capital expenditure is the total cost incurred to acquire property, plant and equipment and intangible assets.

4 Measurement of fair values

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

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

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

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

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

5 Significant subsidiaries

	Country of incorporation	31 December 2017 Ownership/voting shares, %	31 December 2016 Ownership/voting shares, %
OJSC Pskovenergosbyt	Russian Federation	100	100
OJSC Pskovenergoagent	Russian Federation	100	100
OJSC Energoservice North-West	Russian Federation	100	100
OJSC Lesnaya Skazka	Russian Federation	98*	98*

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

6 Information about segments

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

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

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

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

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

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

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

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

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

(i) Information about reportable segments

As at 31 December 2017 and for the year ended 31 December 2017:

	Electricity Transmission					Energy Retail					Total		
	Arkhangelsk-energo	Vologda-energo	Karelia-energo	Kolyma-energo	Komi-energo	Novgorod-energo	Psikovo-energo	Kolyma-energo	Novgorod-energo	Psikovo-energo		Other	Unallocated items
Revenue from external customers	5,566,193	7,060,545	7,763,777	7,468,903	7,475,680	4,606,187	1,220,710	—	—	6,685,363	15,734	—	47,863,092
Inter-segment revenue	—	—	52	—	—	39	3,145,363	—	—	588,138	312,101	—	4,045,693
Segment revenue	5,566,193	7,060,545	7,763,829	7,468,903	7,475,680	4,606,226	4,366,073	—	—	7,273,501	327,835	—	51,908,785
Including													
<i>Electricity transmission</i>	5,047,314	6,926,781	7,556,743	7,395,689	7,007,995	4,527,362	4,248,607	—	—	—	—	—	42,710,491
<i>Connection services</i>	185,881	44,382	37,928	46,859	401,676	42,213	51,229	—	—	—	—	—	810,168
<i>Resale of electricity</i>	—	—	—	—	—	—	—	—	—	7,270,803	—	—	7,270,803
<i>Other revenue</i>	332,998	89,382	169,158	26,355	66,009	36,651	66,237	—	—	2,698	327,835	—	1,117,323
Finance income	4,654	5,422	10,848	4,861	5,393	4,352	4,420	—	—	1,515	473	—	41,938
Finance costs	(608,839)	(157,747)	(17,674)	(189,912)	(161,529)	(99,441)	(172,372)	—	—	(26,783)	(6,011)	—	(1,440,308)
Depreciation and amortization	(457,172)	(1,124,544)	(432,052)	(351,619)	(1,058,083)	(545,817)	(450,881)	—	—	(263)	(1,928)	(8,161)	(4,430,520)
EBITDA	(2,207,996)	2,070,764	721,080	(91,429)	422,083	1,299,796	780,806	—	—	53,010	1,743	8,161	3,058,018
Segment assets	5,881,081	11,123,167	4,595,851	4,965,217	13,070,203	7,060,220	5,143,816	215	—	1,007,457	75,809	2,111,337	55,034,373
<i>Including property, plant and equipment and construction in progress</i>	4,167,836	9,176,591	3,484,616	3,825,902	11,819,062	5,265,790	4,573,633	—	—	71	13,989	28,628	42,356,118
Capital expenditure	698,748	1,431,396	605,214	646,539	1,476,230	669,623	559,349	—	—	—	2,545	9,264	6,098,908
Segment liabilities	1,160,510	831,284	1,010,550	1,421,491	3,499,749	2,028,817	498,877	—	—	947,839	159,087	18,396,316	29,954,520

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As at 31 December 2016 and for the year ended 31 December 2016:

	Electricity Transmission						Energy Retail					Total	
	Arkh- energo	Vologda- energo	Karel- energo	Kol- energo	Komi- energo	Novgorod- energo	Pskov- energo	Kol- energo	Novgorod- energo	Pskov- energosbyt	Other		Unallocated items
Revenue from external customers	5,302,105	6,939,371	7,601,794	6,664,366	7,683,433	4,143,349	828,888	-	-	6,367,301	10,045	-	45,540,652
Inter-segment revenue	-	-	52	-	-	-	3,267,885	-	-	523,784	293,169	-	4,084,890
Segment revenue	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
Including													
<i>Electricity transmission</i>	4,819,361	6,839,987	7,398,214	6,595,938	6,891,844	4,091,429	3,825,560	-	-	-	-	-	40,462,333
<i>Connection services</i>	179,261	34,019	41,116	20,558	735,675	20,040	92,493	-	-	-	-	-	1,123,162
<i>Resale of electricity</i>	-	-	-	-	-	-	-	-	-	6,397,000	-	-	6,397,000
<i>Other revenue</i>	303,483	65,365	162,516	47,870	55,914	31,880	178,720	-	-	494,085	303,214	-	1,643,047
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)
Depreciation and amortization	(467,151)	(1,083,110)	(449,181)	(323,145)	(933,028)	(552,874)	(432,188)	-	-	(353)	(3,422)	(11,378)	(4,255,830)
EBITDA	471,552	1,629,833	852,476	901,238	901,312	1,013,976	837,468	-	-	27,682	10,808	11,378	6,657,723
Segment 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
<i>Including property, plant and equipment and construction in progress</i>	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
Capital expenditure	389,196	787,044	107,859	444,434	1,829,187	224,998	369,357	-	-	58	2,233	49	4,154,415
Segment 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

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(ii) Reconciliation of key segment items reportable to the Management Board of the Group with similar items in these consolidated financial statements

The reconciliation of segment revenue:

	Year ended 31 December 2017	Year ended 31 December 2016
Segment revenues	51,908,785	49,625,542
Intersegment revenue elimination	(4,045,693)	(4,084,890)
Reclassification from other income	6,020	5,133
Revenues per consolidated statement of profit or loss and other comprehensive income	47,869,112	45,545,785

Reconciliation of reportable segment's profit before tax:

	Year ended 31 December 2017	Year ended 31 December 2016
EBITDA of reportable segments	3,058,018	6,657,723
Adjustment for receivables' impairment provision	33,207	–
Discounting of receivables	16,741	10,572
Adjustment for finance lease	3,085	–
Adjustment of available-for-sale financial assets	8,586	(13,339)
Impairment/reversal of impairment of property, plant and equipment	–	(505,470)
Adjustment for value of property, plant and equipment	(9,048)	(8,233)
Recognition of pension and other long-term employee benefit obligation	(26,182)	(13,992)
Adjustment for assets related to employee benefits	(29,785)	(35,098)
Other adjustments	(122,951)	301,146
EBITDA	2,931,671	6,393,309
Depreciation and amortization	(4,108,596)	(3,989,556)
Interest expenses on financial liabilities	(1,434,297)	(1,642,675)
Interest expenses on finance lease liabilities	(1,151)	–
Income tax benefit/(expense)	440,119	(176,442)
(Loss)/profit for the year per consolidated statement of profit or loss and other comprehensive income	(2,172,254)	584,636

The reconciliation of reportable segment total assets:

	Year ended 31 December 2017	Year ended 31 December 2016
Total segment assets	55,034,373	59,148,095
Intersegment balances	(322,991)	(314,001)
Intersegment financial assets	(26,151)	(31,354)
Adjustment for value of property, plant and equipment	(3,334,373)	(3,437,321)

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	Year ended 31 December 2017	Year ended 31 December 2016
Impairment of property, plant and equipment	(1,788,735)	(2,087,772)
Adjustment for inventories valuation	(243,859)	(227,639)
Recognition of assets related to employee benefits	414,244	440,426
Adjustment for receivables' impairment provision	33,207	–
Deferred tax assets adjustment	(1,477,809)	(932,864)
Discounting of receivables	(1,787)	(18,528)
Recognition of assets related to finance lease	26,805	–
Other adjustments	67,425	267,661
Total assets per consolidated statement of financial position	48,380,349	52,806,703

The reconciliation of reportable segment total liabilities:

	Year ended 31 December 2017	Year ended 31 December 2016
Total segment liabilities	29,954,520	31,523,487
Intersegment balances	(322,991)	(314,001)
Deferred tax liabilities adjustment	(1,663,673)	(997,203)
Recognition of pension and other long-term employee benefit obligation	2,116,145	1,762,441
Recognition of finance lease liabilities	27,308	–
Other adjustments	31,591	49,181
Total liabilities per consolidated statement of financial position	30,142,900	32,023,905

(iii) Major customer

The Group operates in the North-West Region of Russian Federation. The Group does not receive revenue from foreign consumers and does not have non-current assets abroad.

For the years ended 31 December 2017 and 31 December 2016, the Group did not have customers for each one whereof attribute more than 10% level of the Group's total revenue.

7 Revenue

	Year ended 31 December 2017	Year ended 31 December 2016
Electricity transmission	39,574,758	37,326,600
Sales of electricity and capacity	6,665,467	6,352,856
Technological connection services	810,168	1,123,162
Other revenue	812,698	738,034
Government grants	6,021	5,133
	47,869,112	45,545,785

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

8 Other income, net

	<u>Year ended 31 December 2017</u>	<u>Year ended 31 December 2016</u>
Income from identified non-contracted electricity consumption	47,441	33,274
Income in the form of fines and penalties on commercial contracts	1,302,359	1,128,095
Loss on disposal of property, plant and equipment	(54,902)	(37,105)
Insurance reimbursement, net	9,560	51,926
Accounts payable write-off	6,995	4,431
Gain from property, plant and equipment and inventories received free of charge	8,368	23,172
Other income, net	12,991	5,900
	<u>1,332,812</u>	<u>1,209,693</u>

9 Operating expenses

	<u>Year ended 31 December 2017</u>	<u>Year ended 31 December 2016</u>
Personnel costs (Note 10)	12,020,152	11,145,194
Depreciation and amortization (Notes 13, 14)	4,108,596	3,989,555
Impairment of property, plant and equipment (Note 13)	–	505,471
<i>Material expenses, including:</i>		
Electricity for compensation of losses	4,807,804	4,630,614
Electricity for sale	3,886,441	3,345,786
Purchased electricity and heat power for own needs	269,372	285,405
Other material costs	2,154,507	1,999,223
<i>Production work and services, including:</i>		
Electricity transmission services	14,077,018	13,959,491
Repair and maintenance services	749,936	679,463
Other production works and services	186,810	105,852
Taxes and charges other than income tax	519,798	470,328
Rent	175,601	169,565
Insurance	63,435	62,855
<i>Other third-party services, including:</i>		
Communication services	113,412	131,975
Security services	225,212	222,938
Consulting, legal and audit services	67,583	49,228
Software costs and servicing	51,848	60,530
Transportation services	147,357	120,118
Other services	456,128	417,076
Impairment of receivables	5,368,409	1,108,988
Provisions (Note 26)	19,477	(9,310)
Other expenses	899,601	873,612
	<u>50,368,497</u>	<u>44,323,957</u>

10 Personnel costs

	<u>Year ended</u> <u>31 December 2017</u>	<u>Year ended</u> <u>31 December 2016</u>
Wages and salaries	8,935,062	8,247,898
Social security contributions	3,013,880	2,819,998
Expenses related to defined benefit plan	71,210	77,298
	<u>12,020,152</u>	<u>11,145,194</u>

The amount of contributions to the defined contribution plan was RUB 28,266 thousand for the year ended 31 December 2017 (for the year ended 31 December 2016: RUB 16,253 thousand).

Remuneration of key management personnel is disclosed in Note 31.

11 Finance income and costs

<i>Recognized in profit or loss</i>	<u>Year ended</u> <u>31 December 2017</u>	<u>Year ended</u> <u>31 December 2016</u>
<i>Finance income</i>		
Interest income on loans, bank deposits, promissory notes and balances in bank accounts	35,927	48,152
Gain from disposal of available-for-sale financial assets	3,015	193
Dividends receivable	421	304
Interest income on assets related to employee benefits	35,028	33,482
Amortization of discount on financial assets	18,164	16,493
Other finance income	33,528	30,342
	<u>126,083</u>	<u>128,966</u>
<i>Finance costs</i>		
Interest expenses on financial liabilities measured at amortized cost	(1,434,297)	(1,642,675)
Interest expenses on finance lease liabilities	(1,151)	–
Impairment loss on available-for-sale financial investments	(115)	(105)
Interest expenses on long-term employee benefit obligation	(134,826)	(149,814)
Effect from primary discounting of financial assets	(1,494)	(6,059)
Other finance costs	–	(768)
	<u>(1,571,883)</u>	<u>(1,799,421)</u>

12 Income tax

	Year ended 31 December 2017	Year ended 31 December 2016
<i>Current income tax</i>		
Accrual of current tax	416,341	353,431
Adjustment of tax for previous periods	(1)	(88,986)
Total	416,340	264,445
<i>Deferred income tax</i>		
Accrual and reversal of temporary differences	(856,459)	(88,015)
Total	(856,459)	(88,015)
Income tax expense	(440,119)	176,430

Income tax recognized in other comprehensive income

	Year ended 31 December 2017			Year ended 31 December 2016		
	Before tax	Income tax	Net of tax	Before tax	Income tax	Net of tax
Available-for-sale financial assets	(3,484)	697	(2,787)	12,156	(2,431)	9,725
Remeasurements of the defined benefit liability	(323,919)	64,783	(259,136)	41,659	(8,332)	33,327
	(327,403)	65,480	(261,923)	53,815	(10,763)	43,052

In 2017 and 2016, PJSC IDGC of North-West and its subsidiaries applied the standard rate of Russian corporate income tax of 20%. This rate has been used in the calculation of deferred tax assets and liabilities.

Loss/(profit) before tax is reconciled to income tax expenses as follows:

	Year ended 31 December 2017	%	Year ended 31 December 2016	%
(Loss)/profit before tax	(2,616,632)		761,067	
Income tax at the applicable tax rate	(523,326)	20	152,213	20
Tax effect on not taxable or non-deductible for tax purposes items	83,208	(3)	113,203	15
Adjustments for prior years	(1)	0	(88,986)	(12)
	(440,119)	17	176,430	23

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13 Property, plant and equipment

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other PPE	Construc- tion in progress	Total
<i>Cost/Deemed cost</i>						
At 1 January 2016	7,009,161	30,361,447	16,169,935	7,093,769	2,488,108	63,122,420
Reclassification between groups	26,270	(9,147)	(1,135)	(15,988)	–	–
Additions	107,208	546,077	286,768	632,896	2,716,772	4,289,721
Transfer	457,257	1,415,646	1,263,964	154,234	(3,291,101)	–
Disposals	(18,083)	(14,977)	(16,692)	(43,533)	(101,146)	(194,431)
At 31 December 2016	7,581,813	32,299,046	17,702,840	7,821,378	1,812,633	67,217,710
At 1 January 2017	7,581,813	32,299,046	17,702,840	7,821,378	1,812,633	67,217,710
Reclassification between groups	21,580	2,929	(11,002)	(13,507)	–	–
Additions	108,454	805,651	272,375	794,539	4,419,964	6,400,983
Transfer	387,307	1,219,581	1,469,187	313,113	69,927	3,459,115
Disposals	(5,603)	(5,714)	(6,535)	(17,708)	(3,799,398)	(3,834,958)
At 31 December 2017	8,093,551	34,321,493	19,426,865	8,897,815	2,503,126	73,242,850
<i>Accumulated depreciation and impairment</i>						
At 1 January 2016	(2,407,812)	(15,005,625)	(6,034,748)	(4,063,212)	(137,158)	(27,648,555)
Reclassification between groups	(9,225)	4,932	1,054	3,239	–	–
Entry into fixed assets (transfer of impairment losses)	(7,770)	(10,212)	(58,026)	(6,455)	82,463	–
Depreciation charge	(314,511)	(1,841,794)	(1,017,787)	(728,686)	–	(3,902,778)
Disposals	7,387	8,488	6,154	35,430	140	57,599
Impairment	(105,301)	(340,588)	(15,991)	(110)	(43,481)	(505,471)
At 31 December 2016	(2,837,232)	(17,184,799)	(7,119,344)	(4,759,794)	(98,036)	(31,999,205)
At 1 January 2017	(2,837,232)	(17,184,799)	(7,119,344)	(4,759,794)	(98,036)	(31,999,205)
Reclassification between groups	(6,536)	(299)	6,835	–	–	–
Entry into fixed assets (transfer of impairment losses)	(1,053)	(20,983)	(6,094)	(4,132)	32,262	–
Depreciation charge	(328,065)	(1,855,320)	(1,073,469)	(754,677)	–	(4,011,531)
Disposals	3,500	3,841	4,460	16,955	6,949	35,705
Impairment	–	–	–	–	–	–
At 31 December 2017	(3,169,386)	(19,057,560)	(8,187,612)	(5,501,648)	(58,825)	(35,975,031)
<i>Net book value</i>						
At 1 January 2016	4,601,349	15,355,822	10,135,187	3,030,557	2,350,950	35,473,865
At 31 December 2016	4,744,581	15,114,247	10,583,496	3,061,584	1,714,597	35,218,505
At 31 December 2017	4,924,165	15,263,933	11,239,253	3,396,167	2,444,301	37,267,819

As at 31 December 2017, construction in progress includes advance payments for property, plant and equipment of RUB 24,272 thousand (31 December 2016: RUB 24,488 thousand) and materials for the fixed assets construction of RUB 377,801 thousand (31 December 2016: RUB 235,640 thousand).

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Capitalized interest for the year ended 31 December 2017 amounted to RUB 69,927 thousand (for the year ended 31 December 2016: RUB 49,333 thousand), with capitalization rate used to calculate borrowing costs to be capitalized during the period of 9% (for 2016: 10.69%).

The depreciation charge for the year ended 31 December 2017 of RUB 32,262 thousand (for the year ended 31 December 2016: RUB 82,463 thousand) has been capitalized to the cost of the capital construction objects.

As at 31 December 2017 and 31 December 2016 there are no fixed assets pledged as collateral for loans and borrowings.

Leased property, plant and equipment

The property, plant and equipment line includes leased fixed assets with the net book value of RUB 26,805 thousand as at 31 December 2017 (31 December 2016: no). Leased equipment is pledged to secure lease obligations.

Impairment of property, plant and equipment

As the indicators of impairment were revealed, the Group performed an impairment test as at 31 December 2017. For this purpose, cash flows were analyzed and the calculated replacement cost was compared to the carrying amount of non-current assets.

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 2017 was determined using projected cash flows. 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 is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other groups of assets.

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

The forecast cash flows have been identified for period №1: 2018-2022 (for cash-generating units branch «Kolenergo», branch «Novgorodenergo»); for period №2: 2018-2027 (for cash-generating unit branch «Arhenergo», branch «Vologdaenergo», branch «Karelenergo», branch «Komienergo», branch «Pskovenergo») based on the best estimate of the 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 «Arhenergo», «Vologdaenergo», «Karelenergo», «Komienergo», «Pskovenergo» was chosen as the stable cash flows would not be achieved by the end of 2022. 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, 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 for 2018 and planning period of 2019 and 2020. Tariff growth rate in 2018-2022 are limited by forecast inflation growth rate of MED.

Forecasted electricity transmission volumes were determined on the basis of the Company's annual business plans for 2018-2022.

The cash flows forecasts were discounted to their present value using a nominal average cost of capital in

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the amount of 10.25%;

The growth rate of the net cash flows in the post-forecast period amounted to 3.3% for period №1, 2.9% for period №2

As at 31 December 2017 as a result of impairment testing the Group there were no any impairment losses identified for the reporting period.

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

14 Intangible assets

	Software	Certificates, licenses and patents	Other intangible assets	Total intangible assets
Initial cost				
As of January 1, 2016	256,439	38,102	12,408	306,949
Reclassification between groups	582	(582)	–	–
Additions	85,751	3,103	1,387	90,241
Disposals	(43,982)	(11,936)	–	(55,918)
As of December 31, 2016	298,790	28,687	13,795	341,272
As of January 1, 2017				
As of January 1, 2017	298,790	28,686	13,797	341,273
Reclassification between groups	–	–	–	–
Additions	97,556	3,350	40,571	141,477
Disposals	(67,432)	(3,692)	(61)	(71,185)
As of December 31, 2017	328,914	28,344	54,307	411,565
Accumulated amortization and impairment				
As of January 1, 2016	(125,181)	(21,161)	(590)	(146,932)
Reclassification between groups	(91)	940	(849)	–
Amortization charge	(79,610)	(7,134)	(350)	(87,094)
Disposals	43,807	11,927	–	55,734
As of December 31, 2016	(161,075)	(15,428)	(1,789)	(178,292)
As of January 1, 2017				
As of January 1, 2017	(161,075)	(15,427)	(1,789)	(178,291)
Reclassification between groups	–	–	–	–
Amortization charge	(90,584)	(6,283)	(198)	(97,065)
Disposals	67,179	3,690	(106)	70,763
As of December 31, 2017	(184,480)	(18,020)	(2,093)	(204,593)
Net book value				
As of January 1, 2016	131,258	16,941	11,818	160,017
As of December 31, 2016	137,715	13,259	12,006	162,980
As of December 31, 2017	144,434	10,324	52,214	206,972

15 Financial investments

	<u>31 December 2017</u>	<u>31 December 2016</u>
<i>Non-current</i>		
Available-for-sale financial assets	14,898	18,836
Financial assets held to maturity	457,769	424,241
	<u>472,667</u>	<u>443,077</u>

Available-for-sale financial assets are represented by the shares of PJSC TGC-1 and other securities. Fair value of these shares is based on published market quotations and amounted to RUB 14,898 thousand and RUB 18,836 thousand as at 31 December 2017 and 31 December 2016 respectively.

For the year ended 31 December 2017 the increase (decrease) in the fair value of these available-for-sale investments in the total amount of RUB (3,484) thousand was recognized in other comprehensive income (for the year ended 31 December 2016: RUB 12,156 thousand).

As at 31 December 2017 financial assets held to maturity are represented by deposits 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 2016: RUB 2,080,000 thousand).

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 restructuring 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 2,080,000 thousands roubles have 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 2017 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 2017, the allowance amounted to 1,622,231 thousand roubles (at 31 December 2016: 1,655,759 thousand roubles).

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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 2017 value of this deferred tax asset amounted to 337,580 thousand roubles (as at 31 December 2016: 331,152 thousand roubles).

	Interest rate	Rating	Rating agency	31 December 2017	31 December 2016
Bank	0.51%	R	Standard & Poor's	457,769	424,241

The Group's exposure to credit risk and impairment losses related to other investments and financial assets is disclosed in Note 27.

16 Deferred tax assets and liabilities

The differences between IFRS and Russian tax law result in temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes.

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Property, plant and equipment	–	–	(2,079,222)	(1,940,554)	(2,079,222)	(1,940,554)
Intangible assets	55	69	–	–	55	69
Available-for-sale financial investments			(1,570)	(2,267)	(1,570)	(2,267)
Inventories	55	73	–	–	55	73
Trade and other receivables and prepayments	549,568	–	–	(428,893)	549,568	(428,893)
Finance lease liabilities	5,461	–	–	–	5,461	–
Provisions	112,349	113,449	–	–	112,349	113,449
Employee benefit liabilities	180,592	113,011	–	–	180,592	113,011
Trade and other payables	791	775	–	–	791	775
Other	357,818	348,294	–	–	357,818	348,294
Tax assets/(liabilities)	1,206,689	575,671	(2,080,792)	(2,371,714)	(874,103)	(1,796,043)
Set-off of tax	(1,196,431)	(567,007)	1,196,430	567,007	–	–
Net tax assets/(liabilities)	10,258	8,664	(884,362)	(1,804,707)	(874,103)	(1,796,043)

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(b) Movement in temporary differences during the year

	1 January 2017	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2017
Property, plant and equipment	(1,940,554)	(138,668)	–	(2,079,222)
Intangible assets	69	(14)	–	55
Available-for-sale financial investments	(2,267)	–	697	(1,570)
Inventories	73	(18)	–	55
Trade and other receivables and prepayments	(428,893)	978,461	–	549,568
Finance lease liabilities	–	5,461	–	5,461
Provisions	113,449	(1,100)	–	112,349
Employee benefit liabilities	113,011	2,797	64,783	180,592
Trade and other payables	775	16	–	791
Other	348,294	9,524	–	357,818
	(1,796,043)	856,459	65,480	(874,103)

	1 January 2016	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2016
Property, plant and equipment	(2,001,274)	60,720	–	(1,940,554)
Intangible assets	(770)	839	–	69
Available-for-sale financial investments	164	–	(2,431)	(2,267)
Inventories	296	(223)	–	73
Trade and other receivables and prepayments	(506,612)	77,719	–	(428,893)
Provisions	140,021	(26,572)	–	113,449
Employee benefit liabilities	119,389	1,954	(8,332)	113,011
Trade and other payables	909	(134)	–	775
Other	374,582	(26,288)	–	348,294
	(1,873,295)	88,015	(10,763)	(1,796,043)

17 Inventories

	<u>31 December 2017</u>	<u>31 December 2016</u>
Raw materials and supplies	415,829	460,331
Provision for impairment of raw materials and supplies	(7)	—
Other inventories	374,583	351,909
Provision for impairment of other inventories	(4,870)	(5,087)
	<u>785,535</u>	<u>807,153</u>

As at 31 December 2017 and 31 December 2016 the Group did not pledge inventories as collateral under loan or other agreements.

During the year ended 31 December 2017, RUB 2,154,507 thousand were recognised as expenses (during the year ended 31 December 2016: RUB 1,999,223 thousand) within operating expenses as *Other material expenses*.

18 Trade and other receivables

	<u>31 December 2017</u>	<u>31 December 2016</u>
Non-current trade and other accounts receivable		
Trade receivables	5,026	44,361
Other receivables	8,474	72,710
Total financial assets	<u>13,500</u>	<u>117,071</u>
Advances given	12,340	2,180
VAT on advances from customers and clients	120,329	290,570
	<u>146,169</u>	<u>409,821</u>
Current trade and other accounts receivable		
Trade receivables	13,831,446	15,221,599
Trade receivables impairment provision	(6,854,567)	(2,239,698)
Other receivables	1,356,721	1,382,340
Other receivables impairment provision	(564,840)	(313,808)
Total financial assets	<u>7,768,760</u>	<u>14,050,433</u>
Advances given	218,253	121,536
Advances given impairment provision	(14,410)	(12,487)
VAT recoverable	987,495	740,160
VAT on advances from customers and clients	4,757	4,648
Prepaid taxes, other than income tax and VAT	25,248	16,117
	<u>8,990,103</u>	<u>14,920,407</u>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 27.

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Balances with related parties are disclosed in Note 31.

19 Cash and cash equivalents

	<u>31 December 2017</u>	<u>31 December 2016</u>
Cash at bank and in hand	82,471	358,619
Cash equivalents	2,000	3,000
	<u>84,471</u>	<u>361,619</u>

	Rating	Rating agency	31 December 2017	31 December 2016
Bank 1	ruAA	Expert RA	731	200,420
Bank 2	Ba2	Moody's Investors Service	35	–
Bank 3*	–	–	3,654	4,516
Bank 4*	Ba2	Moody's Investors Service	39,705	110,578
Bank 5*	NP	Moody's Investors Service	5,565	4,308
Bank 6*	Ba1	Moody's Investors Service	31,679	37,698
Cash in hand			1,102	1,099
			<u>82,471</u>	<u>358,619</u>

*Government-related banks

Cash equivalents consist of short-term bank deposits:

	Interest rate	Rating	Rating agency	31 December 2017	31 December 2016
Bank 1*	5.42	NP	Moody's Investors Service	2,000	3,000

*Government-related banks

As at 31 December 2017 and 31 December 2016, all cash and cash equivalents balances are denominated in roubles.

20 Share capital

	Ordinary shares	
	<u>31 December 2017</u>	<u>31 December 2016</u>
Par value (RUB)	0.1	0.1
On issue at 1 January	95,785,923,138	95,785,923,138
On issue at end of year, fully paid	95,785,923,138	95,785,923,138

Reserve related to business combination

The Group was formed in 2008 as a result of the combination of a number of businesses under common control. The carrying value of the net assets of the businesses contributed were determined based on 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

