Auditors' Report
on the Consolidated Financial Statements of
PJSC Kubanenergo
for the year 2016

March 2017

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RSM

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15.03.2017
№ РСМ - 1718

INDEPENDENT AUDITOR'S REPORT

To: the Shareholders of PJSC "Kubanenergo"

Audited entity:
Kuban Power and Electrification, Public Joint Stock Company (abbreviated name - **PJSC "Kubanenergo"**);
Location: 2A, Stavropolskaya street, Krasnodar, Krasnodar Region, 350033, the Russian Federation;
Primary state registration number – 1022301427268.

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

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

Impairment of non-current assets

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

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

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

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

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

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

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

Non-current assets are disclosed in Note 12, 13 to the consolidated financial statements.

Impairment of accounts receivable

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

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

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

Accrued accounts receivables impairment allowance is disclosed by the Group in Notes 2, 17, 25 to the consolidated financial statements.

Recognition and measurement of revenue

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

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

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

Recognition, measurement and disclosure of provisions and contingent liabilities

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

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

Accrued provisions and contingent liabilities of the Group are disclosed in Notes 24, 27 to the consolidated financial statements.

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

ORNZ in the Register of auditors and audit organizations – 21706004215

"РСМ РУСЬ" МОСКВА

Manager responsible for the audit — **R.F. Mykhailyk**

Audit Certificate No. 03-000591. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Moscow Chamber of Auditors" dated 13 February 2013 No.188. Permanent award.

ORNZ in the Register of auditors and audit organizations – 20103037931

PJSC Kubanenergo
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2016
(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	6	41,802,139	39,288,212
Operating expenses	7	(36,120,126)	(34,690,075)
Other operating incomes	8	288,526	333,298
Results from operating activities		**5,970,539**	**4,931,436**
Finance income	10	104,998	501,183
Finance costs	10	(1,924,456)	(2,202,896)
Net finance costs		**(1,819,458)**	**(1,701,713)**
Profit before income tax		**4,151,081**	**3,229,723**
Income tax expense	11	(1,295,592)	(940,129)
Profit for the year		**2,855,489**	**2,289,594**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability		(75,142)	121,998
Related income tax		15,028	(24,400)
Other comprehensive (loss)/income for the year, net of income tax		**(60,114)**	**97,598**
Total comprehensive income for the year		**2,795,375**	**2,387,192**
Profit attributable to:			
Shareholders of the Company		2,855,489	2,289,594
Total comprehensive income attributable to:			
Shareholders of the Company		2,795,375	2,387,192
Earnings per share – basic and diluted (in Russian Roubles)	20	**10.09**	**8.09**

These consolidated financial statements were approved by management on 15 March 2017 and were signed on its behalf by:

General Director
(by the power of attorney of 30th November 2017 № 119/10-190) O.V. Ocheredko

Chief Accountant I.V. Skiba

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 52.

(in thousands of Russian roubles, unless otherwise stated)

	Notes	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	12	48,228,069	45,239,211
Intangible assets	13	108,227	96,065
Investments and other assets	14	290,093	299,414
Trade and other receivables and advances issued	17	15,192	18,110
Deferred tax assets	15	1,762,358	1,849,757
Total non-current assets		**50,403,939**	**47,502,557**
Current assets			
Inventories	16	1,408,336	1,293,545
Trade and other receivables and advances issued	17	6,749,803	4,895,750
Income tax receivable		366,089	753
Cash and cash equivalents	18	1,254,098	2,577,751
Total current assets		**9,778,326**	**8,767,799**
Assets classified as held for sale		8,492	11,170
Total assets		**60,190,757**	**56,281,526**
Equity and liabilities			
Equity			
Share capital	19	28,286,813	28,286,813
Reserve for issue of shares		2,072,164	-
Share premium		6,481,916	6,481,916
Capital reserves		(225,347)	(165,233)
Accumulated loss		(8,400,237)	(10,110,930)
Total equity attributable to owners of the Company		**28,215,309**	**24,492,566**
Non-current liabilities			
Loans and borrowings	21	18,912,239	10,000,000
Trade and other payables	23	1,428,181	459,189
Employee benefits liability	22	575,813	508,576
Government grants		52,569	67,355
Total non-current liabilities		**20,968,802**	**11,035,120**
Current liabilities			
Loans and borrowings	21	80,100	7,072,418
Trade and other payables	23	8,469,015	11,182,211
Provisions	24	2,446,329	1,907,775
Government grants		11,202	13,440
Current income tax liabilities		-	577,996
Total current liabilities		**11,006,646**	**20,753,840**
Total liabilities		**31,975,448**	**31,788,960**
Total equity and liabilities		**60,190,757**	**56,281,526**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 46.

(in thousand of Russian roubles, unless otherwise stated)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Profit for the year		**2,855,489**	**2,289,594**
Adjustments for:			
Depreciation and amortisation	12, 13	2,890,714	2,564,872
Allowance for impairment of accounts receivable and advances issued	7	(679,837)	2,097,412
Allowance for obsolescence of inventories		(1,746)	471
Provision for legal claims	7	2,099,169	575,170
Finance costs	10	1,924,456	2,202,896
Finance income	10	(104,998)	(501,183)
Loss on disposal of property, plant and equipment	8	50,888	83,877
Loss on disposal of intangible assets	8, 13	763	1,577
Income tax expense		1,295,592	940,129
Income from disposal of subsidiary		-	(11,307)
Other non-cash transactions		(9,515)	(2,858,745)
Cash flows from operating activities before changes in working capital and provisions		**10,320,975**	**7,384,763**
Change in trade and other receivables		(1,039,053)	(3,181,517)
Change in finance assets related to employee benefits fund		22,090	(147,635)
Change in inventories		(106,934)	181,912
Change in trade and other payables		(2,552,289)	180,984
Change in government grants		(17,024)	(24,949)
Change in employee benefit liabilities		(35,378)	(77,314)
Change in provisions		(1,560,615)	(977,688)
Cash flows from operations before income tax and interest paid		**5,031,772**	**3,338,556**
Income tax paid		(2,136,495)	(35)
Interest paid (including capitalized interest)		(1,893,149)	(2,191,815)
Net cash flows from operating activities		**1,002,127**	**1,146,706**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(5,259,237)	(5,733,038)
Proceeds from disposal of property, plant and equipment		1,687	1,479
Interest received		92,177	508,762
Net cash flows used in investing activities		**(5,165,373)**	**(5,222,797)**
Cash flows from financing activities			
Received loans and borrowings		13,222,099	5 335 663
Repayment of loans and borrowings		(11,309,910)	(12 753 574)
Proceeds from issue of shares		2,072,164	-
Proceeds from issue of bonds		-	7 000 000
Dividends paid		(1,144,760)	-
Net cash flows from (used in) financing activities		**2,839,593**	**(417 911)**
Net decrease in cash and cash equivalents		**(1,323,653)**	**(4 494 002)**
Cash and cash equivalents at the beginning of the year	18	**2,577,751**	**7 071 753**
Cash and cash equivalents at the end of the year	18	**1,254,098**	**2 577 751**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 46.

(in thousand of Russian roubles, unless otherwise stated)

	Equity attributable to owners of the Company					
	Share capital	Reserve for issue of shares	Share premium	Capital reserves	Accumulated loss	Total equity
Balance at 1 January 2015	**28,286,813**	–	**6,481,916**	**(262,831)**	**(12,400,524)**	**22,105,374**
Profit for the year	–	–	–	–	2,289,594	**2,289,594**
Other comprehensive income for the year		–				
Revaluation of defined benefit liabilities	–	–	–	121,998	–	**121,998**
Income tax on other comprehensive income	–	–	–	(24,400)	–	**(24,400)**
Total other comprehensive income for the year	–	–	–	**97,598**	–	**97,598**
Total comprehensive income for the year	–	–	–	**97,598**	**2,289,594**	**2,387,192**
Balance at 31 December 2015	**28,286,813**	–	**6,481,916**	**(165,233)**	**(10,110,930)**	**24,492,566**

	Equity attributable to owners of the Company					
	Share capital	Reserve for issue of shares	Share premium	Capital reserves	Accumulated loss	Total equity
Balance at 1 January 2016	**28,286,813**	-	**6,481,916**	**(165,233)**	**(10,110,930)**	**24,492,566**
Profit for the year	-	-	-	-	2,855,489	**2,855,489**
Other comprehensive loss for the year						
Revaluation of defined benefit liabilities	-	-	-	(75,142)	-	**(75,142)**
Income tax as part of other comprehensive income	-	-	-	15,028	-	**15,028**
Total other comprehensive loss for the year	-	-	-	**(60,114)**	-	**(60,114)**
(Total comprehensive loss)/total comprehensive income for the year	-	-	-	**(60,114)**	**2,855,489**	**2,795,375**
Dividends	-	-	-	-	(1,144,797)	**(1,144,797)**
Reserve for issue of shares	-	2,072,164	-	-	-	**2,072,164**
Balance at 31 December 2016	**28,286,813**	**2,072,164**	**6,481,916**	**(225,347)**	**(8,400,237)**	**28,215,309**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 46.

(in thousands of Russian Roubles, unless otherwise stated)

1 Background

(a) The Group and its operations

In 1993 the Krasnodar Production Association of Power and Electrification "Krasnodarenergo" was reorganized into Kuban Power and Electrification Open Joint Stock Company (hereinafter referred to as OJSC "Kubanenergo" or "the Company") in accordance with Decree No. 922 of the President of the Russian Federation "On Particular Features of Transformation of Public Enterprises, Associations, Organizations of Fuel and Energy Complex into Joint Stock Companies" dated 14 August 1992, with Decree No. 923 of the President of the Russian Federation "On Organization of Management of the Electric-Power Complex of the Russian Federation under Privatization Conditions" dated 15 August 1992, with Decree No. 1334 of the President of the Russian Federation dated 5 November 1992 "On Implementation in the Electric-Power Industry of Decree No. 922 of the President of the Russian Federation "On Particular Features of Transformation of Public Enterprises, Associations, Organizations of Fuel and Energy Complex into Joint Stock Companies" dated 14 August 1992".

Due to amendments in the Civil Code of Russian Federation, the new brand title of the company's organizational and legal form was approved by the Annual General Meeting of Shareholders held on June 22, 2015.

The Company's registered office is located at 2A, Stavropolskaya Str., Krasnodar, Krasnodar Territory, Russia, 350033.

The Company's principal activities are electric power transmission and technological connection services.

The Kubanenergo Group (hereinafter referred to as "the Group") comprises PJSC "Kubanenergo" and its subsidiaries presented below:

		Ownership, %	
Subsidiary	**Principal activity**	**31 December 2016**	**31 December 2015**
OJSC "Pansionat otdyha "Energetik"	Recreation	100	100
OJSC "Energoservis Kubani"	Repair service	100	100

According to the court ruling of 2 September, 2015 the bankruptcy proceedings were initiated against OJSC "Ozdorovitelniy kompleks "Plamya". Since this date the Company has lost its control over this subsidiary and recognised its disposal in the consolidated financial statements for the year 2015. In accordance with the decision of the court of January 23, 2017, the bankruptcy proceedings were extended until March 23, 2017.

(b) Group formation

In the past few years the Russian electric utilities industry has gone through a reform designed to introduce competition into the electricity sector and to create an environment in which the Group can raise the capital required to maintain and expand current capacity.

On 1 July 2008 Russian open joint-stock company the Unified Energy System of Russia (hereinafter referred to as "RAO UES") ceased to exist as a separate legal entity and transferred shares of the Company to Open Joint Stock Company Interregional Distribution Grid Companies Holding, a newly formed state-controlled entity, which was renamed to OJSC Rosseti in April of 2013.

Due to amendments in the Civil Code of Russian Federation, the new brand title of the company's organizational and legal form was approved by the Annual General Meeting of Shareholders held on June 30, 2015. Open Joint Stock Company Rosseti (OJSC "Rosseti") was changed to Public Joint Stock Company ROSSETI (PJSC "ROSSETI"). The new edition of the Company`s Charter with the changed company`s name was registered on July 17, 2015.

As at 31 December 2016 the Government of the Russian Federation owned 88.75% of the voting ordinary shares and 7.01% of preference shares of PJSC "ROSSETI", which in its turn owned 92.24% of the Company's shares. As at 31 December 2015, the Government of the Russian Federation owned 86.32% of the voting ordinary shares and 7.01% of preference shares of PJSC "ROSSETI", which in its turn owned 92.24% of the Company's shares.

(c) Relations with the state and current regulations

The Group's business is a natural monopoly which is under the influence of the Russian government. The government of the Russian Federation directly affects the Group's operations also through state tariffs.

In accordance with the legislation, the Company's tariffs are controlled by the Federal Antimonopoly Service and the Regional Energy Commissions.

Currently, the system of tariff setting of the Russian electric utilities industry is undergoing a reform process. The Regulatory Asset Based (RAB) tariffs setting system is being implemented in the Russian Federation.

(d) Russian business environment

The Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the national economics and financial markets, which display the characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, 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 Company's management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements (hereinafter - 'financial statements') have been prepared in accordance with International Financial Reporting Standards (hereinafter - IFRSs).

(b) Basis of measurement

The consolidated IFRS financial statements are prepared on the historical cost basis except for property, plant and equipment at 1 January 2011 that were measured at carrying amounts included in the consolidated IFRS financial statements of OJSC "Rosseti" as part of the Group's first time adoption of IFRSs as at 1 January 2011 (Note 12).

(c) Functional and presentation currency

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

(d) Going concern

These consolidated financial statements have been prepared on a going concern basis.

As at 31 December 2016 a net working capital deficit of the Group amounted to RUB 1,228,320 thousand (as at 31 December 2015 there was RUB 11,986,041 thousand).

The Group controls the level of liquidity on a regular basis. Management monitors maturities of the estimated cash flows from operating and financing activities and manages current liquidity using open credit lines (see Note 21). According to the business plan, during 2017 the Group plans to obtain long term bank loans amounting to RUB 15,167,026 thousand that will be used for refinancing the part of the previously raised bank loans.

In order to increase the efficiency of working capital management the Group is focused on an increased collection of trade receivables, including reducing doubtful receivables. The Group approved a plan of measures to reduce outstanding receivables for electricity transmission and for the settlement of disputes with customers. The issues regarding collection of receivables are considered by the Management Board on a quarterly basis.

Management anticipates that any repayments of loans and borrowings and settlement of trade and other payables required will be met out of operating or financing cash flows. Therefore, management believes that there is no significant uncertainty regarding the Group's ability to continue as going concern.

(e) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 15 "Deferred tax assets";
- Note 25 "Provisions in respect of trade and other receivables".

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 12 "Determination of recoverable amount of property, plant and equipment";
- Note 22 "Employee benefits";
- Note 24 "Provisions";
- Note 27 "Commitments and contingencies".

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The accounting policies have been applied consistently by the Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. 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.

(ii) Transactions eliminated on consolidation

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

(b) Financial instruments

(i) Non-derivative financial assets

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

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Non-derivative financial assets of the Group comprise cash and cash equivalents and receivables.

Cash and cash equivalents and receivables

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

Cash and cash equivalents comprise cash in hand and at bank.

(ii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

The Group has the following non-derivative financial liabilities: loans and borrowings, trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract.

(c) Share capital

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

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2011, the date of transition to IFRSs, was determined by reference to its carrying amounts included in the consolidated IFRS financial statements of the Company's parent – PJSC "ROSSETI".

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

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

The gain or loss on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other operating income/expense in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised 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 derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

The Group writes-off the amortisation cost of fixed assets during useful life systematically by means of depreciation's charging.

Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised 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 unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of the Group's property, plant and equipment are as follows:

- buildings 1-83 years;
- transmission networks 4-79 years;
- equipment for electricity transmission 1-42 years;
- other assets 1-50 years.

Depreciation methods, useful lives and residual values of property, plant and equipment are reviewed at each financial year and adjusted if appropriate.

(e) Intangible assets

(i) Initial recognition

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

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised 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 for the current and comparative periods are as follows:

- licenses and certificates 1-10 years;
- software 1-15 years.

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

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance 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 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 recognised in the statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories 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 realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) 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 an objective evidence of impairment.

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

(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. An impairment loss is recognised 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 is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of 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.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) 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 entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit post-employment plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and 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. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Revaluations of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) 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 (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

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

(iii) 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 recognised 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.

(j) Provisions

A provision is recognised 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 recognised as finance cost.

(k) Revenue

(i) Electricity transmission services

Revenue from electricity transmission services is recognised in profit or loss when the customer acceptance of the volume of electricity transmitted obtained. The tariffs for electricity transmission are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

(ii) Connection services

Revenue from connection services represents a financial remuneration for connecting the customer to the electricity grid network. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services. Revenue is recognized at the moment of connection on the base of Acceptance Act of Services rendered (Connection act).

(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.

(l) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, 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.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(m) Finance income and costs

Finance income comprises interest income on funds invested, discount on financial instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, financial leasing, discount on financial instruments and impairment losses recognised 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 recognised 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 cost depending on whether foreign currency movements are in a net gain or net loss position.

(n) Income tax

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

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

Deferred tax is recognised in respect of 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 recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

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 income 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 believes that its accruals for tax liabilities are adequate for all 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 realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. A deferred tax asset is recognised for unused tax losses, tax credits and deductable temporary differences to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. 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 realised.

(o) 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.

(p) Segment reporting

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

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

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.

Inter-segment pricing is determined on an arm's length basis.

(q) Related parties

The Group disclosed the information about the Company's ultimate control party which the Government of the Russian Federation represented by the Federal Agency for State Property Management.

If the Group had related party transactions, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, necessary to understand the potential effect of the transactions on the consolidated financial statements.

Disclosures shall include: the amount of the transactions; the amount of outstanding balances, including commitments, and details of any guarantees given or received; provisions for doubtful debts related to the amount of outstanding balances; and the expenses recognized during the period in respect of bad or doubtful debts due from related parties.

The Group disclosed above mentioned information separately for each of the following categories: the companies with significant influence over the Group; key management personnel; other related parties.

The Group is exempt from the above mentioned requirements on disclosure of information about transactions with entities that are related parties if these related parties are the entities the Government of the Russian Federation has control, joint control or significant influence over. In respect of the transactions with such related parties the nature and amount of each individually significant transaction or for similar transactions that are collectively significant shall be disclosed.

The Group discloses the following information about government-related entities:

- a share of revenues from sales to government-related entities of the total Group revenues (the proceeds from the transfer of electricity are disclosed separately);
- a share of electricity transmission expenses for government-related entities of the total Group cost of the electricity transmission;
- significant loans from government-related entities.

Also the Group disclosed the amount of remuneration to the key management personnel and the nature of the remuneration.

(r) New standards and interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 and which the Group has not early adopted. The Group intends to adopt applicable standards when they become effective. None of them is expected to affect the consolidated financial statements of the Group, except the following set out below.

IFRS 9 Financial Instruments. In 2014 the IASB issued the final version of IFRS 9 , which reflects all phases of financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing impact of IFRS 9 on its consolidated financial statements.

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

IFRS 16 Leases. IFRS 16 is single guidance for lease accounting and contains requirements for related disclosures. The new standard replaces IAS 17 Leases and the related interpretations on lease. IFRS 16 is partly or fully retrospectively effective for annual periods beginning on or after 1 January 2019, with earlier application permitted under the simultaneous application of IFRS 15.

Disclosure Initiative (Amendments to IAS 7). The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The amendments are expected to result in additional disclosures but they do not affect financial position or financial performance of the Group.

The following new standards, amendments and interpretations may affect the Group consolidated financial statements but the effects are not expected to be significant.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12). The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2). The amendments are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

Transfers of Investment Property (Amendments to IAS 40). The amendments are effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The effective date is deferred indefinitely. Adoption is permitted.

IFRIC 22 Foreign Currency Transactions and Advance Consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

Various **Improvements to International Financial Reporting Standards** issued by IASB within 2014-2016 Annual Improvements Cycle. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

Impact of new Standards and amendments

The Group has not adopted any new standards or amendments that would have a significant impact on the consolidated financial statements.

(in thousands of Russian Roubles, unless otherwise stated)

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values of assets and liabilities is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

The fair value of non-current trade and other receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Management believes that the fair value of current trade and other receivables approximates their carrying amount. This fair value is determined for disclosure purpose.

(b) Non-derivative financial liabilities

Fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Operating segments

The Group has one reportable segment, as described below, which is the Group's strategic business unit. This strategic business unit offers electricity transmission services including technological connection services in separate geographical regions of the Russian Federation (Krasnodar Territory and Republic of Adygeya) and is managed in common. The "other" segment includes several operating segments such as rent services and repair and maintenance services. None of them meets any of the quantitative thresholds for determining reportable segments in 2016 or 2015.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the consolidated financial statements prepared under IFRS. Reconciliation of items measured as reported to the Management Board with similar items in these consolidated financial statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Segment capital expenditures are the total costs incurred during the year to acquire property, plant and equipment.

Key segment items presented to and analysed by the Management Board are presented in the tables below:

(i) Information about reportable segments

For the year ended 31 December 2016:

	Kubanenergo	Other segments	Total
Revenue from external customers	41,723,935	78,204	**41,802,139**
Inter-segment revenue	2,266	57,803	**60,069**
Total segment revenue	**41,726,201**	**136,007**	**41,862,208**
Operating expenses	(35,927,750)	(148,062)	(36,075,812)
including depreciation and amortization	*3,633,403*	*4,610*	*3,638,013*
Segment operating profit/(loss)	**5,798,451**	**(12,055)**	**5,786,396**
Other income	2,615,870	5,456	**2,621,326**
Other expenses	(3,108,883)	(3,582)	**(3,112,465)**
Finance income	89,719	408	**90,127**
Finance costs	(1,888,922)	(26)	**(1,888,948)**
Segment profit/(loss) before income tax	**3,506,235**	**(9,799)**	**3,496,436**

For the year ended 31 December 2015:

	Kubanenergo	Other segments	Total
Revenue from external customers	35,702,127	61,120	**35,763,247**
Inter-segment revenue	2,034	12,348	**14,382**
Total segment revenue	**35,704,161**	**73,468**	**35,777,629**

(in thousands of Russian Roubles, unless otherwise stated)

Operating expenses	(33,149,295)	(80,905)	(33,230,200)
including depreciation and amortization	*(3,208,264)*	*(5,051)*	*(3,213,315)*
Segment operating profit/(loss)	**2,554,866**	**(7,437)**	**2,547,429**
Other income	6,850,607	155	**6,850,762**
Other expenses	(5,407,097)	(2,737)	**(5,409,834)**
Finance income	478,593	-	**478,593**
Finance costs	(2,261,263)	(399)	**(2,261,662)**
Segment profit/(loss) before income tax	**2,215,706**	**(10,418)**	**2,205,288**

As at 31 December 2016:

	Kubanenergo	**Other segments**	**Total**
Segment assets	**67,288,201**	**54,048**	**67,342,249**
including property, plant and equipment	*55,910,737*	*32,550*	*55,943,287*
Segment liabilities	**31,889,792**	**32,634**	**31,922,426**
Segment capital expenditures	**5,448,161**	**-**	**5,448,161**

As at 31 December 2015:

	Kubanenergo	**Other segments**	**Total**
Segment assets	**64,318,398**	**66,311**	**64,384,709**
including property, plant and equipment	*53,710,490*	*49,735*	*53,760,225*
Segment liabilities	**31,987,856**	**30,514**	**32,018,370**
Segment capital expenditures	**8,094,114**	**3,988**	**8,098,102**

(in thousands of Russian Roubles, unless otherwise stated)

(ii) Reconciliation of reportable segments revenues, loss before income tax, assets and liabilities

Reconciliation of reportable segment revenue is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Total segment revenues	**41,862,208**	**35,777,629**
Reclassification from other income	-	3,484,736
Adjustment of revenue from electricity transmission	-	40,229
Inter-segment revenue elimination	(60,069)	(14,382)
Revenues per consolidated statement of profit or loss and other comprehensive income	**41,802,139**	**39,288,212**

Reconciliation of reportable segment loss before income tax is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Total segment profit before income tax	**3,496,436**	**2,205,288**
Adjustments for:		
Depreciation and loss from property plant and equipment disposal	772,036	728,535
Income of future periods written-off	31,954	18,119
Revenue and expenses from electricity transmission	29,587	51,841
Borrowing costs capitalised as property plant and equipment	15,217	155,096
Recognition of employee benefits liabilities	(1,417)	161,513
Reclassification of tax penalties and charges other than income tax	(34,638)	(46,117)
Allowance for impairment of accounts receivable	(34,675)	(59,748)
Accrual of provision for unused vacations and bonuses	(125,593)	(33,698)
Impairment loss on property, plant and equipment, recognised according to IFRS	-	32,771
Disposal of subsidiary	-	11,307
Impairment of other financial assets	-	(17,234)
Other adjustments	2,174	22,050
Profit before income tax for the year per consolidated statement of profit or loss and other comprehensive income	**4,151,081**	**3,229,723**

Reconciliation of reportable segment total assets is presented below:

	31 December 2016	31 December 2015
Total reportable segment assets	**67,342,249**	**64,384,709**
Inter-segment balances	(1,137)	(3,711)
Adjustments for:		
Deferred tax	915,689	872,220
Recognition of assets related to employee benefit fund	290,092	299,413
Allowance for impairment of trade and other receivables	568	36,243
Receivables written-off	(1,007)	(30,594)
Decrease of receivables by VAT on advances issued	(9,630)	(397)
Deferred expenses	(26,476)	(37,047)
Inter-segment investments	(45,687)	(45,687)
Decrease of VAT recoverable by the amount of VAT on advances received	(544,681)	(659,128)
Net book value of property, plant and equipment	(7,706,725)	(8,493,978)
Disposal of subsidiary	-	(18,418)
Other adjustments	(22,498)	(22,099)
Total assets per consolidated statement of financial position	**60,190,757**	**56,281,526**

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of reportable segment total liabilities is presented below:

	31 December 2016	31 December 2015
Total reportable segment liabilities	**31,922,426**	**32,018,370**
Inter-segment balances	(1,137)	(3,711)
Adjustments for:		
Recognition of employee benefits liabilities	575,813	508,576
Accrual of provision for unused vacations and bonuses	230,625	105,033
Decrease of other payables by the amount of VAT on advances issued	(9,630)	(397)
Deferred income written-off	(66,459)	(34,505)
Deferred tax	(128,943)	(123,218)
Decrease of payables in respect of advances received by the amount of VAT on advances received	(544,681)	(659,128)
Disposal of subsidiary	-	(12,491)
Other adjustments	(2,566)	(9,569)
Total liabilities per consolidated statement of financial position	**31,975,448**	**31,788,960**

The Group performs its activities in the Russian Federation.

For the year ended 31 December 2016 the Group had two major customers – distribution companies operating in the Krasnodar Territory of the Russian Federation with individual turnover over 10% of the total Group revenues. The total amount of revenues for these major customers for the year ended 31 December 2016 was RUB 33,296,797 thousand, or 79.7% of the Group's total revenues (2015: RUB 29,196,095 thousand, or 74.3%).

6 Revenue

	Year ended 31 December 2016	Year ended 31 December 2015
Electricity transmission	39,260,269	34,441,461
Connection services	2,380,524	1,213,257
Rental income	18,582	18,917
Repairs and maintenance	5,521	9,258
Other revenue	137,243	3,605,319
	41,802,139	**39,288,212**

(in thousands of Russian Roubles, unless otherwise stated)

7 Operating expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Electricity transmission	14,855,066	13,605,034
Purchased electricity for compensation of technological losses	7,445,886	6,482,770
Personnel costs (Note 9)	5,526,659	4,708,822
Depreciation and amortization (Notes 12, 13)	2,890,714	2,564,872
Provision for legal claims	2,099,169	575,170
Other material expenses	896,651	832,175
Taxes other than income tax	620,853	502,112
Equipment repairs and maintenance services	408,400	388,748
Other services of third-party organizations	239,275	67,445
Rent	225,781	88,053
Income and losses of prior years	201,389	156,465
Security services	193,165	194,153
Expenses connected with the maintenance of property	139,721	158,894
Business trip expenses	120,261	119,099
Electricity and heat power for own needs	111,815	105,360
Management services	76,485	76,485
Insurance	75,858	76,245
Other production works and services	70,389	1,250,946
Software and support expenses	63,950	53,192
Communication services	62,796	57,015
Fines and penalty fee under economic contracts	57,014	18,286
Consulting, legal and audit services	17,128	132,686
Transport services	4,942	5,808
Maintenance and repair of electricity supply network facilities	-	4,759
Impairment of trade and other receivables	(679,837)	2,097,412
Other expenses	396,596	368,069
	36,120,126	**34,690,075**

The most significant provisions for legal claims accrued in 2016 were for the following counterparts: FSK EES – RUB 1,691,167 thousand and OAO "KESK" – RUB 359,992 thousand and others – RUB 48,010 thousand.

8 Other operating income

	Year ended 31 December 2016	Year ended 31 December 2015
Insurance compensation received	101,734	136,250
Income in the form of fines and penalty fee	88,475	17,759
Non-contractual consumption of electricity	83,026	158,452
Income from donated fixed assets	54,724	53,983
Profit from disposal of property, plant and equipment	11,302	3,581
Income from donated inventories, including surplus as a result of inventory-taking	8,720	9,924
Income in the form of inventory as a result of property, plant and equipment disposals	6,111	7,501
Write-off of payables	3,498	31,078
Profit from disposal of subsidiary	-	11,307
Loss on disposal of intangible assets (Note 13)	(763)	(1,577)
Expenses on property, plant and equipment write-off, including advances on PPE	(68,301)	(94,959)
	288,526	**333,298**

(in thousands of Russian Roubles, unless otherwise stated)

9 Personnel costs

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries	4,036,506	3,471,364
Contributions to RF Pension Fund	840,661	764,057
Payroll taxes, except contributions to RF Pension Fund	361,783	295,460
Financial support, compensations, grants and other social payments	236,508	212,772
Expense in respect of post-employment defined benefit plan (Note 23)	38,424	(47,573)
Medical and personal insurance of employees and their families	12,776	12,742
	5,526,659	**4,708,822**

10 Finance income and costs

	Year ended 31 December 2016	Year ended 31 December 2015
Finance income		
Interest income on cash held in banks	90,127	470,953
Interest income on financial assets related to employee benefits liabilities	12,769	9,223
Effect of discounting of financial instruments	2,102	21,004
Other	-	3
	104,998	**501,183**
Finance costs		
Interest expenses on loans and borrowings	(1,066,168)	(2,005,034)
Interest expenses on issued bonds	(807,564)	(63,706)
Expenses related to defined benefit plans (Note 22)	(40,104)	(72,659)
Effect of discounting of financial instruments	(10,620)	(14,077)
Interest expenses on long-term payables	-	(30,186)
Loss on impairment of investments in subsidiary with lost control	-	(17,234)
	(1,924,456)	**(2,202,896)**

11 Income tax

	Year ended 31 December 2016	Year ended 31 December 2015
Current tax		
Current year	(1,194,267)	(578,521)
Adjustments for prior years	1,102	(3,164)
	(1,193,165)	**(581,685)**
Deferred tax		
Origination and reversal of temporary differences	(102,427)	(358,444)
	(102,427)	**(358,444)**
	(1,295,592)	**(940,129)**

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of effective tax rate

	Year ended 31 December 2016	%	Year ended 31 December 2015	%
Profit before income tax	**4,151,081**	**100**	**3,229,723**	**100**
Income tax at applicable tax rate	(830,216)	(20)	(645,945)	(20)
Non-deductible expenses	(464,582)	(11)	(287,957)	(9)
Adjustments for prior years	1,102	0,03	(3,164)	(0,10)
Unrecognized deferred tax assets	(1,896)	(0,05)	(3,063)	(0,09)
	(1,295,592)	**(31)**	**(940,129)**	**(29)**

In 2016 and 2015 the Group's applicable tax rate was 20%.

12 Property, plant and equipment

The cost of property, plant and equipment at 1 January 2011, the date of transition to IFRSs, was determined by reference to their carrying amounts included in the consolidated IFRS financial statements of the parent – PJSC "ROSSETI".

(in thousands of Russian Roubles, unless otherwise stated)

	Production buildings and structures	Transmission network	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/Deemed cost						
Balance as at 1 January 2015	6,942,601	27,794,971	12,326,743,	5,928,965	3,505,875	**56,499,155**
Additions	19,133	5,511	46,213	141,141	8,252,878	**8,464,876**
Transfers	206,892	6,900,415	982,436	453,918	(8,543,661)	-
Reclassifications	4,768	923	(8,879)	3,188	-	-
Disposals	(23,095)	(61,532)	(9,557)	(14,519)	(56,348)	**(165,051)**
Reclassification to non-current assets held for sale	-	-	-	(16,335)	-	**(16,335)**
Balance as at 31 December 2015	**7,150,299**	**34,640,288**	**13,336,956**	**6,496,358**	**3,158,744**	**64,782,645**
Balance as at 1 January 2016	7,150,299	34,640,288	13,336,956	6,496,358	3,158,744	**64,782,645**
Additions	48,691	31,537	59,763	297,733	5,468,742	**5,906,466**
Transfers	258,803	1,545,035	1,150,454	256,422	(3,210,714)	-
Reclassifications	(8,050)	(14,792)	(135,711)	158,553	-	-
Disposals	(1,805)	(36,542)	(8,638)	(35,692)	(47,568)	**(130,245)**
Balance as at 31 December 2016	**7,447,938**	**36,165,526**	**14,402,824**	**7,173,374**	**5,369,204**	**70,558,866**

(in thousands of Russian Roubles, unless otherwise stated)

	Production buildings and structures	Transmission network	Equipment for electricity transmission	Other	Construction in progress	Total
Accumulated depreciation and impairment						
Balance as at 1 January 2015	(1,895,446)	(7,048,767)	(4,648,183)	(3,204,407)	(305,018)	**(17,101,821)**
Reallocation of impairment losses	(10,360)	(70,498)	(52,378)	(17,574)	150,810	-
Charge of impairment loss on property, plant and equipment	-	-	-	-		-
Depreciation for the year	(222,600)	(966,133)	(731,537)	(576,483)	-	**(2,496,753)**
Disposals	5,908	17,558	6,215	11,605	8,689	**49,975**
Reclassifications of depreciation and impairment losses	(731)	(155)	4,197	(3,311)	-	-
Reclassification to non-current assets held for sale	-	-	-	5,165	-	**5,165**
Balance as at 31 December 2015	**(2,123,229)**	**(8,067,995)**	**(5,421,686)**	**(3,785,005)**	**(145,519)**	**(19,543,434)**
Balance as at 1 January 2016	(2,123,229)	(8,067,995)	(5,421,686)	(3,785,005)	(145,519)	**(19,543,434)**
Reallocation of impairment losses	(11,748)	(9,463)	(6,843)	(4,876)	32,930	-
Charge of impairment loss on property, plant and equipment	-	-	-	-	(29)	**(29)**
Depreciation for the year	(244,095)	(1,256,184)	(770,005)	(567,873)	-	**(2,838,157)**
Disposals	1,728	12,368	5,658	27,994	3,075	**50,823**
Reclassifications of depreciation and impairment losses	27,154	(1,731)	83,334	(108,757)	-	-
Balance as at 31 December 2016	**(2,350,190)**	**(9,323,005)**	**(6,109,542)**	**(4,438,517)**	**(109,543)**	**(22,330,797)**
Carrying amounts						
At 1 January 2015	**5,047,155**	**20,746,204**	**7,678,560**	**2,724,558**	**3,200,857**	**39,397,334**
At 31 December 2015	**5,027,070**	**26,572,293**	**7,915,270**	**2,711,353**	**3,013,225**	**45,239,211**
At 1 January 2016	**5,027,070**	**26,572,293**	**7,915,270**	**2,711,353**	**3,013,225**	**45,239,211**
At 31 December 2016	**5,097,748**	**26,842,521**	**8,293,282**	**2,734,857**	**5,259,661**	**48,228,069**

As at 31 December 2016 construction in progress includes prepayments for property, plant and equipment of RUB 83,921 thousand (as at 31 December 2015: RUB 16,106 thousand).

The amount of capitalised interest for the year ended 31 December 2016 was RUB 27,150 thousand (for the year ended 31 December 2015: RUB 156,919 thousand). The capitalization rate for general purpose loans and borrowings for the year ended 31 December 2016 was 6.16% (for the year ended 31 December 2015: 13.01%).

No property, plant and equipment are pledged as security for bank loans as at 31 December 2016 and as at 31 December 2015.

Determination of recoverable amount of property plant and equipment

The Company performed impairment tests for non-current assets due to existence of impairment indicators. The future cash flows were analyzed and the calculated recoverable amount was compared with 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 of the property, plant and equipment.

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

Cash-generating units are determined by the Group on the basis of geographical location of branches and subsidiaries, and constitute the smallest identifiable groups of assets that generate cash inflows regardless of other assets of the Group.

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

- cash flows were projected based on the provisions of the Methodology guidelines for the testing of power grid assets for impairment (approved by Order of PJSC "Russian Grids" no. 583p of 15 December 2015) and forecast data for the period up to 2021;
- the forecast cash flows have been determined for the period 2017-2021, based on the best estimate of the management of PJSC Kubanenergo in respect of the electricity transmission volumes, operating expenses and capital expenditure, and tariffs approved by regulatory authorities for 2017;
- electricity transmission tariffs for the forecasted period were estimated based on the business plan, amended and agreed by PJSC "Russian Grids", which was based on tariff models generated with the average annual growth rate of tariff for the electricity transmission services (in accordance with the forecast for the social and economic development of the Russian Federation for 2017 and the planning period of 2018-2019);
- forecasted electricity transmission volumes were determined on the basis of the Company's annual business plans for 2017-2021;
- the projected cash flows were discounted to their present value using the nominal weighted average cost of capital in the amount of 10.91% (in 2015: 11.31%);
- the growth rate of the net cash flows in the post-forecast period amounted to 3.3%;

As a result of testing, no impairment of fixed assets of PJSC Kubanenergo was identified.

(in thousands of Russian Roubles, unless otherwise stated)

13 Intangible assets

	Software	Certificates and licenses	Research and development works	Other	Total
Cost					
Balance as at 1 January 2015	183,233,	5,295	11,054	3,243	202,825
Additions	29,616	-	6,241	8,298	44,155
Disposals	(23)	-	(1,554)	-	(1,577)
Balance as at 31 December 2015	**212,826**	**5,295**	**15,741**	**11,541**	**245,403**
Balance as at 1 January 2016	212,826	5,295	15,741	11,541	245,403
Additions	56,263	-	11,166	-	67,429
Disposals	-	-	(763)	-	(763)
Balance as at 31 December 2016	**269,089**	**5,295**	**26,144**	**11,541**	**312,069**
Accumulated amortization					
Balance as at 1 January 2015	(76,537)	(2,350)	-	(175)	(79,062)
Amortization for the year	(67,570)	(1,660)	-	(1,046)	(70,276)
Balance as at 31 December 2015	**(144,107)**	**(4,010)**	**-**	**(1,221)**	**(149,338)**
Balance as at 1 January 2016	(144,107)	(4,010)	-	(1,221)	(149,338)
Amortization for the year	(49,571)	(1,285)	-	(3,648)	(54,504)
Balance as at 31 December 2016	**(193,678)**	**(5,295)**	**-**	**(4,869)**	**(203,842)**
Carrying amounts					
As at 1 January 2015	**106,696**	**2,945**	**11,054**	**3,068**	**123,763**
As at 31 December 2015	**68,719**	**1,285**	**15,741**	**10,320**	**96,065**
As at 31 December 2016	**75,411**	**-**	**26,144**	**6,672**	**108,227**

(in thousands of Russian Roubles, unless otherwise stated)

The amount of intangible assets amortization is recognized in operating expenses in the consolidated statement of Profit or Loss and Other Comprehensive Income. The amount of capitalised amortization for the year ended 31 December 2016 was RUB 1,947 thousand (for the year ended 31 December 2015: RUB 2,157 thousand).

14 Investments and other assets

	31 December 2016	31 December 2015
Assets related to employee benefit fund	290,092	299,413
Other long-term investments	17,237	17,234
Impairment of other long-term investments	(17,236)	(17,234)
Other current assets	-	1
	290,093	**299,414**

Assets related to the employee benefit fund relate to the Group contributions accumulated in the solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions 80% contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

15 Deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Property, plant and equipment	590,561	657,342	-	-	590,561	657,342
Trade and other receivables	491,270	651,052	-	-	491,270	651,052
Intangible assets	-	72	(149)	-	(149)	72
Inventories	-	-	(41)	(202)	(41)	(202)
Other investments	-	3,447	(20)	-	(20)	3,447
Provisions	489,266	381,555	-	-	489,266	381,555
Trade and other payables	154,863	135,299	-	-	154,863	135,299
Employee benefits	29,181	12,865	-	-	29,181	12,865
Tax loss carry-forwards	7,091	3,981	-	-	7,091	3,981
Other	5,295	7,409	-	-	5,295	7,409
Tax assets/(liabilities)	**1,767,527**	**1,853,022**	**(210)**	**(202)**	**1,767,317**	**1,852,820**
Set off of tax	(210)	(202)	210	202	-	-
Unrecognized deferred tax assets	(4,959)	(3,063)	-	-	(4,959)	(3,063)
Net deferred tax assets	**1,762,358**	**1,849,757**	-	-	**1,762,358**	**1,849,757**

The deductible temporary differences do not expire under the current tax legislation. Deferred tax assets have been recognised because the management of the Group believes that it is probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

As at 31 December 2016 the Group did not recognize the deferred tax asset in the amount of RUB 4,959 thousand for tax loss carried forward for its subsidiary OJSC "Energoservis of Kuban".

(in thousands of Russian Roubles, unless otherwise stated)

Movements in deferred taxes during the year

	1 January 2016	Recognised in profit or loss	Recognised in other comprehensive loss	31 December 2016
Property, plant and equipment	657,342	(66,781)	-	590,561
Trade and other receivables	651,052	(159,782)	-	491,270
Intangible assets	72	(221)	-	(149)
Inventories	(202)	161	-	(41)
Other investments	3,447	(3,467)	-	(20)
Provisions	381,555	107,711	-	489,266
Trade and other payables	135,299	19,564	-	154,863
Employee benefits	12,865	1,288	15,028	29,181
Tax loss carry-forwards	3,981	3,110	-	7,091
Other	7,409	(2,114)	-	5,295
Unrecognized deferred tax assets	(3,063)	(1,896)	-	(4,959)
Net deferred tax assets	**1,849,757**	**(102,427)**	**15,028**	**1,762,358**

	1 January 2015	Recognised in profit or loss	Recognised in other comprehensive loss	31 December 2015
Property, plant and equipment	816,313	(158,971)	-	657,342
Intangible assets	(3,388)	3,460	-	72
Other investments	-	3,447	-	3,447
Inventories	1,116	(1,318)	-	(202)
Trade and other receivables	302,396	348,656	-	651,052
Provisions	462,059	(80,504)		381,555
Employee benefits	72,249	(34,984)	(24,400)	12,865
Trade and other payables	109,547	25,752	-	135,299
Tax loss carry-forwards	465,786	(461,805)	-	3,981
Other	6,523	886	-	7,409
Unrecognized deferred tax assets	-	(3,063)	-	(3,063)
Net deferred tax assets	**2,232,601**	**(358,444)**	**(24,400)**	**1,849,757**

16 Inventories

	31 December 2016	31 December 2015
Raw materials and supplies	735,930	703,067
Allowance for impairment of raw materials and supplies	(5,037)	(4,960)
Other inventories	681,765	601,583
Allowance for impairment of other inventories	(4,322)	(6,145)
	1,408,336	**1,293,545**

As at 31 December 2016 and 31 December 2015 no inventories of the Group were pledged under the bank loan agreements.

(in thousands of Russian Roubles, unless otherwise stated)

17 Trade and other receivables and advances issued

	31 December 2016	31 December 2015
Non-current receivables		
Other receivables of external organizations	5,655	6,127
	5,655	**6,127**
VAT recoverable	5,200	5,684
Advances issued to related parties (Note 28)	4,337	6,299
	15,192	**18,110**
Current receivables		
Trade receivables of external organizations	7,847,747	6,149,365
Trade receivables impairment allowance of external organizations	*(1,436,089)*	*(1,547,143)*
Trade receivables of related parties (Note 28)	9	201
Total receivables, carrying amount	**6,411,667**	**4,602,423**
Other receivables of external organizations	950,854	1,518,411
Other receivables impairment allowance of external organizations	*(722,685)*	*(1,344,754)*
Other receivables of related parties (Note 28)	245,509	231,027
Other receivables impairment allowance of related parties (Note 28)	*(167,116)*	*(167,116)*
Total other receivables, carrying amount	**306,562**	**237,568**
	6,718,229	**4,839,991**
Advances issued	121,513	173,147
Advances issued impairment allowance	*(111,666)*	*(146,111)*
Total advances issued, carrying amount	**9,847**	**27,036**
Current VAT recoverable	17,384	8,218
VAT prepaid	-	13,788
Other taxes prepaid	4,343	6,717
	6,749,803	**4,895,750**

The Group's exposure to credit risk and currency risk and impairment losses related to trade and other receivables is disclosed in Note 25.

18 Cash and cash equivalents

	31 December 2016	31 December 2015
Cash at government-related banks	1,229,944	1,955,567
Cash at banks, not related to government, and in hand	20,015	622,087
Deposits at banks, related to government	4,000	-
Cash equivalents	139	97
	1,254,098	**2,577,751**

All cash and cash equivalents are denominated in RUB.

As at 31 December 2016 cash at government-related banks includes balances of RUB 176,800 thousand (31 December 2015: RUB 1,412,100 thousand), which represent minimum required balances on the accounts in order to get additional finance income at annual interest rates of 8% (31 December 2015: 2.99%-10.5%). The requirement to maintain minimum level of cash balances does not restrict the Company's ability to use cash at any time, however, in case of breaking requirement on minimum required balances no interest income is accrued.

(in thousands of Russian Roubles, unless otherwise stated)

19 Equity

Share capital	Ordinary shares	
	Year ended 31 December 2016	**Year ended 31 December 2015**
	RUB 100	RUB 100
Number of shares		
Par value of one share		
In issue at 1 January	282,868,130	282,868,130
In issue at 31 December – fully paid	**282,868,130**	**282,868,130**
Share capital		
Par value at 1 January	28,286,813	28,286,813
Par value at 31 December	**28,286,813**	**28,286,813**

Dividends

The Company's financial statements prepared in accordance with Russian Accounting Standards (RAS) form the basis for the distribution of profit and other appropriations. Due to differences between Russian Accounting Principles and IFRS, the Company's loss in the RAS accounts can differ significantly from that reported in the consolidated financial statements prepared under IFRS.

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

At the annual General Meeting of Shareholders of PJSC "Kubanenergo", held on 6 June 2016, it was decided to declare dividends in the amount of RUB 1,144,797 thousand (RUB 4.047105 per one ordinary share of the Company) for the year 2015. As of 31 December 2016, dividends were paid in the amount of RUB 1,144,760 thousand. As of 31 December 2016, dividends payable in the amount of RUB 37 thousand are reflected in the Consolidated Statement of Financial Position of the Company as part of trade and other payables (as of 31 December 2015 – RUB 0).

Additional issue of shares

On 19 September 2016, the annual General Meeting of Shareholders of PJSC "Kubanenergo" approved the decision to increase the Company's authorized capital by issuing additional 57,457,846 ordinary shares with a nominal value of RUB 100 per share. The issue of shares was registered by the Central Bank of the Russian Federation on 16 December 2016. As of 31 December 2016, within the framework of this right, shareholders contributed to the authorized capital of the Company RUB 2,072,164 thousand, which were recognized as a reserve for the issue of shares directly in equity.

20 Earnings per share

The calculation of earnings per share is based on the net profit for the period and the number of ordinary shares outstanding. The Company has no dilutive potential ordinary shares; accordingly, diluted earnings per share equal to basic earnings per share.

	Year ended 31 December 2016	**Year ended 31 December 2015**
Weighted average number of issued ordinary shares for the period (thousands of shares)	282,868	282,868
Profit attributable to ordinary shareholders (RUB thousand)	2,855,489	2,289,594
Earnings per share – basic and diluted (in RUB)	**10.09**	**8.09**

(in thousands of Russian Roubles, unless otherwise stated)

21 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and liquidity risks, refer to Note 25.

	31 December 2016	31 December 2015
Non-current loans and borrowings		
Unsecured bank loans	11,912,239	3,000,000
Bonds issued	7,000,000	7,000,000
	18,912,239	**10,000,000**
Current loans and borrowings		
Interest payable	79,078	71,346
Unsecured borrowings	1,022	1,072
Unsecured bank loans	-	7,000,000
	80,100	**7,072,418**

Terms and conditions of outstanding loans and borrowings were as follows:

	Nominal interest rate (fixed),%			Carrying amount	
Bank loans	**31 December 2016**	**31 December 2015**	**Year of maturity**	**31 December 2016**	**31 December 2015**
PJSC "Sberbank"*	9.90%	9.33-9.39%	2019	2,000,000	7,000,000
JSC "Gazprombank"*	10.00-10.80%	12.70%	2019	9,912,239	2,560,000
JSC "Rosenergobank"	-	12.70%	2016	-	440,000
Total bank loans	-	-	-	**11,912,239**	**10,000,000**
Borrowings					
Bonds issued (PJSC "ROSSETI")	10.44-12.63%	10.44-12.63%	2025	7,000,000	7,000,000
Other	Interest-free	Interest-free	2017	1,022	1,072
Total borrowings	-	-	-	**7,001,022**	**7,001,072**
Interest payable					
Bonds issued (PJSC "ROSSETI")	10.44-12.63%	10.44-12.63%	2017	75,814	71,346
Bank loans	9.90%	-	2017	3,264	-
Total interest payable	-	-	-	**79,078**	**71,346**
Total	-	-	-	**18,992,339**	**17,072,418**

*Loans and borrowings from the government – related entities.

All loans and borrowings of the Group are RUB-denominated.

In quarter 4 2015, PJSC "Kubanenergo" issued inconvertible bonds with interest payments for half-year coupon periods in the total amount of RUB 7,000,000 thousand, which were repurchased by PJSC "ROSSETI":

- issue 4V02-02-00063-A-001R dated November 24, 2015 in the amount of RUB 3,400,000 thousand, at the interest rate of 12,63% for the 14 semi-annual coupon periods;
- issue 4V02-01-00063-A-001R dated December 4, 2015 in the amount of RUB 3,600,000 thousand, at the interest rate of 10,44% for the 20 semi-annual coupon periods.

As at 31 December 2016 and 31 December 2015 there were no violations of restrictive covenants of loan agreements.

As at 31 December 2016 the Group has unused credit facilities in the total amount of RUB 4,938,033 thousand including the following banks:

(in thousands of Russian Roubles, unless otherwise stated)

- JSC "Gazprombank" in the amount of RUB 1,000,000 thousand, which was received at the interest rate of 10.8 % and which matures in December 2017;
- JSC "Gazprombank" in the amount of RUB 38,033 thousand, which was received at the interest rate of 10 % and which matures in April 2019;
- JSC "RRDB" in the amount of RUB 800,000 thousand, which was received at the interest rate of 10.2 % and which matures in December 2019;
- PJSC "Sberbank" in the amount of RUB 1,000,000 thousand, which was received at the interest rate of 9.73 % and which matures in December 2017;
- PJSC "Sberbank" in the amount of RUB 1,000,000 thousand, which was received at the interest rate of 9.73 % and which matures in December 2017;
- PJSC "Sberbank" in the amount of RUB 1,000,000 thousand, which was received at the interest rate of 9.73 % and which matures in December 2017.

22 Employee benefits

The Group has defined benefit pension plan which consists of defined post-employment benefits and cover most full-time and retired employees. Defined post-employment benefits consist of several plans providing for lump-sum payments upon retirement, financial support for pensioners, death benefits, jubilee benefits.

Non-state pension provision of employees PJSC "Kubanenergo" is defined through the Non-state Pension Fund of the Electric Power (further in the text – NPF) and on the basis of Agreement of Non-state pension provision. The main element of this program is the Corporate pension plan, which defined post-employment benefits and is defined benefit pension plan. The program extends on the employees having the pension bases, who were born till 1967. According to the program of non-state pension provision the size of the guaranteed non-state pension depends on length of each employee's working life at the enterprise, on the size of an average monthly salary and also existence of awards.

As at 31 December 2016 the Group has 8,473 employees who are the active participants of pension and social security and also has 2,694 unemployed pensioners who are the recipients of financial support (as at 31 December 2015: 8,413 employees and 2,587 pensioners respectively). As at 31 December 2016 8,143 people among employees of the Group have the right for non-state pension provision (as at 31 December 2015: 8,079 employees). Such huge increase was caused by cancellation of date-of-birth condition mentioned above (till 1967).

Movements in the defined benefit plan liabilities are as follows:

The defined benefit plan liabilities recognized in the consolidated statement of financial position:

	31 December 2016	31 December 2015
Present value of defined benefit plan liabilities	575,813	508,576
	575,813	**508,576**

Expenses/(income) recognized in the consolidated statement of profit or loss and other comprehensive income:

	Year ended 31 December 2016	Year ended 31 December 2015
Current service cost	38,424	46,609
Past service cost	-	(94,182)
Interest expenses on benefit plan liabilities	40,104	72,659
	78,528	**25,086**

Interest expenses on benefit plan liabilities are recognized in finance costs for the year 2016 and for the year 2015.

Current service cost is recognized in the «personnel costs» as part of operating expenses for the year 2016 and for the year 2015.

Amounts recognized in other comprehensive loss of the consolidated statement of profit or loss and other comprehensive income:

	Year ended 31 December 2016	Year ended 31 December 2015
(Gain)/loss arising from changes in demographic actuarial assumptions	7,558	10,201

(in thousands of Russian Roubles, unless otherwise stated)

(Gain)/loss arising from changes in financial actuarial assumptions	(7,901)	21,677
(Loss)/gain on experience adjustment	75,485	(153,876)
	75,142	**(121,998)**

Movements in the fair value of defined benefit plan liabilities are as follows:

	Movements in the net employee benefit plan liabilities	
	Year ended 31 December 2016	**Year ended 31 December 2015**
As at 1 January	**508,576**	**635,229**
Current service cost	38,424	46,609
Past service cost and curtailments	-	(94,182)
Interest expenses	40,104	72,659
Effect of remeasurement of the defined benefit liability		
(Gain)/loss arising from changes in demographic actuarial assumptions	7,558	10,201
(Gain)/loss arising from changes in financial actuarial assumptions	(7,901)	21,677
(Loss)/gain on experience adjustment	75,485	(153,875)
Contributions to the plan	(86,433)	(29,742)
As at 31 December	**575,813**	**508,576**

Changes in value of assets related to employee defined benefit fund are as follows:

	Year ended 31 December 2016	**Year ended 31 December 2015**
As at 1 January	**299,413**	**142,555**
Return on plan assets	12,769	9,223
Benefits paid	(23,105)	147,263
Other movements	1,015	372
As at 31 December	**290,092**	**299,413**

Movements in revaluation of the defined benefit liability in other comprehensive loss are as follows:

	Year ended 31 December 2016	**Year ended 31 December 2015**
Revaluation as at 1 January	206,541	328,539
Movements of remeasurement	75,142	(121,998)
Revaluation as at 31 December	**281,683**	**206,541**

(in thousands of Russian Roubles, unless otherwise stated)

Key actuarial assumptions:

	31 December 2016	31 December 2015
Financial assumptions		
Discount rate	8.5%	9.5%
Future salary increases	4.7%	6.0%
Inflation rate	4.7%	6.0%
Demographic assumptions		
Expected retirement age		
Male	60	60
Female	55	55
Employee turnover	11.2%	11.8%

The weighted average duration of the defined benefit plan obligation as at 31 December 2016 is 7.2 years (as at 31 December 2015: 7.2 years). The expected contributions in 2017 by the Group to the defined benefit plans are RUB 90,617 thousand. The contributions to other long-term benefits are not expected, because as at 31 December 2016 the other long-term payments are absent.

The sensitivity of the total benefit plan liabilities to changes in the key actuarial assumptions is presented below:

	Change in assumption	Impact on defined benefit liability
Discount rate	Increase/decrease by 0.5 %	Decrease/Increase by 2.13%
Future salary increases (nominal)	Increase/decrease by 0.5 %	Increase/decrease by 1.53%
Future pension increases (nominal)	Increase/decrease by 0.5 %	Increase/decrease by 0.67%
Employee turnover	Increase/decrease by 10%	Decrease/Increase by 2.46%
Mortality level	Increase/decrease by 10%	Decrease/Increase by 0.60%

The above sensitivity analysis is based on the method of changes of each actuarial assumption while holding all other assumptions constant. When calculating the sensitivity of the present value of liabilities, to the key actuarial assumptions the same method has been applied as when assessing the present value of liabilities (the projected unit credit method) recognized in the statement of financial position.

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit liabilities at the reporting date were as follows.

	31 December 2016	31 December 2015
Longevity at age 60 for current pensioners		
Males	19	19
Females	25	25
Longevity at age 60 for current members		
Males	23	23
Females	27	27

(in thousands of Russian Roubles, unless otherwise stated)

23 Trade and other payables

	31 December 2016	31 December 2015
Non-current payables		
Trade payables for external organizations	2	34,969
Other payables for external organizations	1,344	767
	1,346	**35,736**
Advances received from external organizations	1,426,835	423,453
	1,428,181	**459,189**
Current payables		
Trade payables for external organizations	4,332,963	3,275,606
Payables to employees	928,037	790,045
Trade payables for related parties (Note 28)	530,100	1,075,743
Other payables for external organizations	419,904	87,681
Other payables for related parties (Note 28)	130,244	1,737,551
Dividends payable	37	-
	6,341,285	**6,966,626**
Advances received from external organizations	1,378,066	3,201,092
Advances received from related parties (Note 28)	92	90
	1,378,158	**3,201,182**
Taxes payable		
VAT	474,949	772,644
Property tax	133,872	110,166
Payments to social funds	93,935	87,898
Personal income tax	42,793	39,641
Other taxes	4,023	4,054
Fines on taxes	-	-
	749,572	**1,014,403**
	8,469,015	**11,182,211**

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 25.

Payables to employees are represented as follows:

	31 December 2016	31 December 2015
Annual bonus provision	243,882	275,097
Unused vacation provision	241,194	226,877
Monthly bonuses provision	230,625	106,240
Salaries and wages payable	212,336	181,831
	928,037	**790,045**

24 Provisions

	Year ended 31 December 2016	Year ended 31 December 2015
Balance at 1 January	1,907,775	2,310,293
Provisions accrued during the year	2,223,710	1,269,530
Provisions reversed during the year	(124,541)	(694,360)
Provisions used during the year	(1,560,615)	(977,688)
Balance at 31 December	**2,446,329**	**1,907,775**

(in thousands of Russian Roubles, unless otherwise stated)

Provisions relate to the legal proceedings against the Group and unsettled disagreements with distribution selling entities regarding compensation of technological losses.

25 Financial risk management

Overview

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

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

The Group does not have any exposure to foreign currency risk as no sales, purchases and borrowings are denominated in a currency other than the functional currency of Group entities, which is the RUB.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's risk management policies deal with identifying and analysing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Revision Committee oversees how management monitors compliance with the Group's internal control procedures.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is set by contract and depends on the amount of capacity to be connected.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relate to individually significant exposures.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	31 December 2016	31 December 2015
Trade and other receivables	6,723,884	4,846,118
Cash and cash equivalents	1,254,098	2,577,751
	7,977,982	**7,423,869**

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying amount	
	31 December 2016	31 December 2015
Electricity transmission customers	7,807,100	6,108,891

(in thousands of Russian Roubles, unless otherwise stated)

Connection services customers	22,287	21,513
Other sales	1,220,387	1,774,727
Less impairment allowance	(2,325,890)	*(3,059,013)*
	6,723,884	**4,846,118**

Impairment losses

The table below analyses the Group's trade and other receivables into relevant groups based on the due periods:

	31 December 2016		31 December 2015	
	Gross amount	**Impairment loss**	**Gross amount**	**Impairment loss**
Not past due	5,212,269	(173,489)	4,631,644	(424,183)
Past due less than 90 days	2,052,007	(552,034)	1,577,805	(1,288,828)
Past due 90-180 days	156,098	(127,410)	147,684	(21,764)
Past due 180-365 days	191,083	(150,465)	190,538	(73,928)
Past due more than 1 year	1,438,317	(1,322,492)	1,357,460	(1,250,310)
	9,049,774	**(2,325,890)**	**7,905,131**	**(3,059,013)**

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	Year ended 31 December 2016	**Year ended 31 December 2015**
Balance at 1 January	3,059,013	1,357,457
Increase during the year	636,990	2,060,085
Decrease due to provision reversal	(1,313,278)	(97,895)
Amounts written off against trade receivables	(56,835)	(260,634)
Balance at 31 December	**2,325,890**	**3,059,013**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. This approach is used to analyse payment dates associated with financial assets, and also to forecast cash flows from operating activities.

(in thousands of Russian Roubles, unless otherwise stated)

The contractual maturities of financial liabilities presented including estimated interest payments and excluding netting.

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	Over 4 years
Non-derivative financial liabilities as at 31 December 2016							
Loans and borrowings	18,992,339	26,486,946	2,105,966	6,044,671	12,488,542	408,708	5,439,060
Trade and other payables	6,342,594	6,345,087	6,342,557	705	752	705	368
Total	**25,334,933**	**32,832,033**	**8,448,523**	**6,045,376**	**12,489,294**	**409,413**	**5,439,428**

	Carrying amount (restated)	Contractual cash flows (restated)	0-1 years (restated)	1-2 years	2-3 years	3-4 years	Over 4 years
Non-derivative financial liabilities as at 31 December 2015							
Loans and borrowings	17,072,418	23,976,697	8,699,900	1,587,109	3,640,046	4,203,026	5,846,616
Trade and other payables	7,002,361	7,012,032	6,966,725	42,824	705	705	1,073
Total	**24,074,779**	**30,988,729**	**15,666,625**	**1,629,933**	**3,640,751**	**4,203,731**	**5,847,689**

Market risk

Market risk is the risk that changes in market prices, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk

The Group's income and operating cash flows are largely independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of loans and borrowings. The interest rates on most loans and borrowings are fixed. Changes in interest rates impact primarily loans and borrowings by changing their fair value (fixed rate debt).

Management of the Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Fair value sensitivity analysis for fixed rate financial instruments

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

Fair values

Management of the Group believes that the fair value of financial assets and liabilities approximates their carrying amounts.

The basis for determining fair value is disclosed in Note 4.

Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as net profit after tax divided by total shareholders' equity.

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their share capital at all times.

Netting or similar agreements

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

As at 31 December 2016 and as at 31 December 2015 the Group has no contractual bases concerning the offsetting of financial assets and financial liabilities and also the management of the Group does not assume it in the future on the basis of additional agreements.

(in thousand of Russian roubles, unless otherwise stated)

26 Operating lease

The Group leases a number of land plots owned by local governments under operating leases. In addition, the Group leases non-residential premises and vehicles.

Land leases were entered in current and prior periods and represented land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 5 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

The land title does not pass and the landlord retains control over land usage. The Group determined that substantially all the risks and rewards of the land plots are with the landlord, therefore the leases are considered as operating leases.

Non-cancellable operating lease rentals under land lease agreements are payable as follows:

	31 December 2016	31 December 2015
Less than one year	83,700	56,016
Between one year and five years	188,496	148,393
More than five years	1,561,524	1,124,438
	1,833,721	**1,328,847**

During the reporting year RUB 225,781 thousand (as at 31 December 2015: RUB 87,292 thousand) was recognised in profit or loss in respect of operating leases (including expenses incurred on operating lease other than land lease).

27 Commitments and contingencies

Capital commitments

As at 31 December 2016 the Group has outstanding commitments for the acquisition and construction of property, plant and equipment of RUB 2,092,294 thousand (31 December 2015: RUB 1,171,596 thousand).

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not generally available. The Group does not have full coverage for its stations business interruption or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigations

The Group was involved in the number of court procedures (both as a plaintiff and as a defendant) arising in the course of business.

As at 31 December 2016 and as at 31 December 2015 the Group was in dispute with distribution selling entities related to purchase of electricity for compensation of technological losses and electricity transmission services. In the opinion of management the probability of negative outcome of the disputes was probable and a provision of RUB 2,446,329 thousand (as 31 December 2015: RUB 1,841,627 thousand) was recognized.

Taxation contingencies

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

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

As at 31 December 2016 the Group recognized a provision on tax disputes in the amount of RUB 0 thousand (as at 31 December 2015: RUB 66,148 thousand). The disagreements with tax authority arose regarding a definition of the taxpayer of a land tax for the land plots which according to dividing balance were transferred to the allocated company from the moment of reorganization of the Group's Parent Company in prior periods.

Environmental matters

The Group and its predecessors have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group entities periodically evaluate their obligations under environmental regulations.

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

Other contingencies

The Group believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Unified National Electricity Network property ("last-mile") by the Group there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased "last-mile" grids and courts agree with the customers' view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim would have individual legal circumstances and respective estimation would be based on a variety of assumptions and judgments, which makes it impracticable. The Group did not recognize as at the reporting date any provision for those actual and potential claims as it believes that it is not probable that related outflow of resources or decrease of benefits inflow will take place. The Group believes that expected changes in legislation will further reduce the level of risk.

28 Related parties

Control relationship

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of the Board of Directors and key management personnel which comprised of General Director, Deputy General Directors and Directors of the branches. The Company's parent as at 31 December 2016 and 31 December 2015 was PJSC "ROSSETI". The party with the ultimate control over the Company is the Government of the Russian Federation which held the majority of the voting rights of PJSC "ROSSETI".

In the normal course of business the Group enters into transactions with other entities under common government control including Russian railways, state-controlled banks and various governmental bodies. Prices for electricity, electricity transmission and connection services are based on tariffs set by federal and regional tariff regulatory bodies. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

The Group's parent company produces publicly available financial statements.

(in thousand of Russian roubles, unless otherwise stated)

Transactions with the Company's Parent, its subsidiaries and associates

Transactions with the Company's Parent, its subsidiaries and associate include transactions with PJSC "ROSSETI", its subsidiaries and associates, and were as follows:

Revenue

	Transaction value for the year ended 31 December		Balance	
	2016	**2015**	**31 December 2016**	**31 December 2015**
Parent company				
Other	1,185	13,241	-	-
Transactions with other PJSC "ROSSETI" subsidiaries				
Rent	49	965	9	-
Other	22,232	27,536	255,909	237,527
Allowance for impairment of other receivables	-	-	(167,116)	(167,116)
Connection services	-	795	-	-
	45,830	**42,537**	**88,802**	**70,411**

Expenses

	Transaction value for the year ended 31 December		Balance	
	2016	**2015**	**31 December 2016**	**31 December 2015**
Parent company				
Managing services	76,485	76,485	-	-
Other	21,713	19,660	5,297	5,297
	98,198	**96,145**	**5,297**	**5,297**
Transactions with other PJSC "ROSSETI" subsidiaries				
Electricity transmission	4,904,590	4,801,251	371,979	350,834
Rent	11,306	11,970	31,063	82,643
Connection services	488	1,217,630	-	1,433,384
Other	97,022	53,556	135,224	879,134
	5,013,406	**6,084,407**	**538,266**	**2,745,995**
Capitalized installation and construction activities	2,889	27,535	122,170	62,092
	5,114,493	**6,208,087**	**665,733**	**2,813,384**

Borrowings received

	Amount of transaction for the year ended 31 December		Balance	
	2016	**2015**	**31 December 2016**	**31 December 2015**
Parent company				
Bonds issued	-	-	7,000,000	7,000,000
Interest on bonds issued	807,564	63,706	75,814	71,346
	807,564	**63,706**	**7,075,814**	**7,071,346**

For more details about bonds repurchased by PJSC "ROSSETI" see Note 21.

(in thousand of Russian roubles, unless otherwise stated)

Management remuneration

The Group identifies members of Board of Directors, members of Management Board and top managers of the Company and its subsidiaries as key management personnel.

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

The amounts of remuneration paid to key management personnel represent current costs of key management personnel stated as payroll costs (see Note 9):

	Year ended 31 December 2016		Year ended 31 December 2015	
	Board of Directors	Key Management Personnel	Board of Directors	Key Management Personnel
Salaries and bonuses	17,130	164,185	21,603	108,204

The current value of liabilities of defined benefit plan and defined contribution plan recognized in the Group's Consolidated statement of financial position for the year ended 31 December 2016 includes liabilities related to the key management personnel amounting to RUB 1,140 thousand (for the year ended 31 December 2015: RUB 1,068 thousand).

Transactions with government-related entities

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

Revenues from government-related entities for the year ended 31 December 2016 constitute 5.79% (for the year ended 31 December 2015: 3.21%) of total Group revenues. The electricity transmission revenue from government – related entities for the year ended 31 December 2016 constitutes 0.80% (for the year ended 31 December 2015: 0.98%) of total Group revenues.

Electricity transmission costs from government-related entities for year ended 31 December 2016 constitute 3.25% (for the year ended 31 December 2015: 3.60%) of total electricity transmission costs.

Significant loans and borrowings from government-related entities are disclosed in Note 21.

Pricing policies

Related party revenue for electricity transmission is based on the tariffs regulated by the government.

29 Events after the reporting period

From 1 January till 15 March 2017 the Group received the following loans:

- In the amount of RUB 485,433 thousand from JSC "Gazprombank" to finance current activities;
- In the amount of RUB 2,000,000 thousand from JSC "Gazprombank" to repay received loans;
- In the amount of RUB 95,861 thousand from PJSC "Sberbank" to finance current activities;
- In the amount of RUB 3,000,000 thousand from PJSC "Sberbank" to repay received loans;
- In the amount of RUB 155,969 thousand from JSC "RRDB" to finance current activities.