PUBLIC JOINT STOCK COMPANY KUBANENERGO

CONSOLIDATED INTERIM CONDENSED

FINANCIAL STATEMENTS

FOR THREE MONTHS ENDED 31 MARCH 2017

(UNAUDITED)

Contents

(in thousands of Russian roubles, unless otherwise specified)

	Note	Three months ended 31 March 2017 (Unaudited)	Three months ended 31 March 2016 (Unaudited)
Revenue	6	10,115,861	10,496,892
Operating expenses	7	(9,663,918)	(9,226,094)
Other operating income	8	89,913	14,284
Results from operating activities		**541,856**	**1,285,082**
Finance income		26,795	49,927
Finance costs		(516,667)	(468,152)
Net finance costs		**(489,872)**	**(418,225)**
Profit before income tax		**51,984**	**866,857**
Income tax expense		(199,592)	(675,092)
(Loss)/profit for the period		**(147,608)**	**191,765**
Other comprehensive (loss)/income:			
Items that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability		(7,215)	1,069
Related income tax		1,443	(214)
Other comprehensive (loss)/income the period, net of income tax		**(5,772)**	**855**
Total comprehensive (loss)/income for the period		**(153,380)**	**192,620**
(Loss)/profit attributable to:			
Shareholders of the Company		(147,608)	191,765
Total comprehensive (loss)/income attributable to:			
Shareholders of the Company		(153,380)	192,620
(Loss)/Earnings per share - basic and diluted (in Russian Roubles)	11	**(0,52)**	**0,68**

These consolidated financial statements were approved by management on 1 June 2017 and were signed on its behalf by:

General director
(by the power of attorney of 30 November 2016 No 119/10-190) O.V. Ocheredko

Chief Accountant I.V. Skiba

The consolidated interim 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 interim condensed financial statements set out on pages 8 to 21.

(in thousands of Russian roubles, unless otherwise specified)

	Note	31 March 2017 (unaudited)	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	9	48,612,158	48,228,069
Intangible assets	12	97,698	108,227
Investments and other assets		301,329	290,093
Trade and other receivables		13,544	15,192
Deferred tax assets		1,777,041	1,762,358
Total non-current assets		**50,801,770**	**50,403,939**
Current assets			
Inventories		1,544,696	1,408,336
Trade and other receivables		6,374,458	6,749,803
Income tax receivable		531,892	366,089
Cash and cash equivalents		2,080,424	1,254,098
Total current assets		**10,531,470**	**9,778,326**
Assets classified as held for sale		**8,492**	**8,492**
TOTAL ASSETS		**61,341,732**	**60,190,757**
EQUITY AND LIABILITIES			
Equity			
Share capital	10	28,286,813	28,286,813
Share issue reserve		2,072,166	2,072,164
Share premium		6,481,916	6,481,916
Capital reserves		(231,119)	(225,347)
Accumulated loss		(8,547,845)	(8,400,237)
Total equity attributable to owners of the Company		**28,061,931**	**28,215,309**
Non-current liabilities			
Loans and borrowings	13	21,665,600	18,912,239
Trade and other payables		1,434,592	1,428,181
Employee benefits		591,387	575,813
Government grants		47,955	52,569
Total non-current liabilities		**23,739,534**	**20,968,802**
Current liabilities			
Loans and borrowings	13	290,349	80,100
Trade and other payables		6,926,235	8,469,015
Provisions		2,309,982	2,446,329
Government grants		12,642	11,202
Current income tax liabilities		1,059	-
Total current liabilities		**9,540,267**	**11,006,646**
TOTAL LIABILITIES		**33,279,801**	**31,975,448**
TOTAL EQUITY AND LIABILITIES		**61,341,732**	**60,190,757**

The consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 8 to 21.

(in thousands of Russian roubles, unless otherwise specified)

	Note	Three months ended 31 March 2017 (Unaudited)	Three months ended 31 March 2016 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit for the period		**(147,608)**	**191,765**
Adjustments for:			
Depreciation and amortisation	7	770,609	717,693
Allowance for impairment of accounts receivable	7	228,359	107,810
Impairment loss on property, plant and equipment		-	21
Allowance for obsolescence of inventories		(897)	(3,395)
Provision for legal processes		488,614	265,142
Finance costs		516,667	468,152
Finance income		(26,795)	(49,927)
Loss on disposal of property, plant and equipment and intangible assets		5,188	5,195
Loss on disposal of intangible assets			3,393
Income tax expense		199,592	675,095
Other non-cash transactions		(29,150)	(60,369)
Cash flows from operating activities before changes in working capital and provisions		**2,004,579**	**2,320,575**
Change in trade and other accounts receivable		147,482	(623,495)
Changes in financial assets related to employee benefits plan		9,488	38,707
Change in inventories		(134,641)	(101,118)
Change in trade and other accounts payable		(1,445,203)	(487,385)
Change in government grants		(3,174)	(3,329)
Change in employee benefit liabilities		(3,632)	(31,930)
Change in provisions		(624,961)	(355,849)
Cash flows from (used in) operations before income taxes and interest paid		**(50,062)**	**756,176**
Income tax (paid)/return		(377,576)	(578,060)
Interest paid (including capitalized interest)		(310,354)	(257,411)
Net cash flows used in operating activities		**(737,992)**	**(79,295)**

The consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 21.

(in thousands of Russian roubles, unless otherwise specified)

CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(1,196,861)	(911,279)
Proceeds from disposal of property, plant and equipment	209	-
Dividends received	-	-
Interest received	7,107	35,615
Net cash flows used in investing activities	**(1,189,545)**	**(875,664)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions from shareholders	2	-
Proceeds from loans and borrowings	8,864,346	131,140
Repayment of loans and borrowings	(6,110,485)	(130,170)
Net cash flows from financing activities	**2,753,863**	**970**
Net decrease in cash and cash equivalents	**826,326**	**(953,989)**
Cash and cash equivalents at the beginning of the reporting period	**1,254,098**	**2,577,751**
Cash and cash equivalents at the end of the reporting period	**2,080,424**	**1,623,762**

The consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 21.

(in thousands of Russian roubles, unless otherwise specified)

	Equity attributable to owners of the Company					
	Share capital	**Share issue reserve**	**Share premium**	**Other provisions**	**Accumulated loss**	**Total equity**
Balance at 01 January 2016	**28,286,813**	-	**6,481,916**	**(165,233)**	**(10,110,930)**	**24,492,566**
Profit for the reporting period					191,765	**191,765**
Other comprehensive income for the period						
Re-measurement of the defined benefit liability				1,069		1,069
Income tax on other comprehensive income				(214)		(214)
Total other comprehensive income for the period				**855**		**855**
Total comprehensive loss for the period				**855**	**191,765**	**192,620**
Balance at 31 March 2016	**28,286,813**	-	**6,481,916**	**(164,378)**	**(9,919,165)**	**24,685,186**

	Equity attributable to owners of the Company					
	Share capital	**Share issue reserve**	**Share premium**	**Other provisions**	**Accumulated loss**	**Total equity**
Balance at 01 January 2017	**28,286,813**	**2,072,164**	**6,481,916**	**(225,347)**	**(8,400,237)**	**28,215,309**
Profit for the reporting period					(147,608)	**(147,608)**
Other comprehensive income for the period						
Re-measurement of the defined benefit liability				(7,215)		**(7,215)**
Income tax on other comprehensive income				1,443		**1,443**
Total other comprehensive income for the period				**(5,772)**		**(5,772)**
Total comprehensive income for the period				**(5,772)**	**(147,608)**	**(153,380)**
Transactions with shareholders recognised directly in equity						
Share issue reserve		2				**2**
Total transactions with shareholders recognised directly in equity		**2**				**2**
Balance at 31 March 2017	**28,286,813**	**2,072,166**	**6,481,916**	**(231,119)**	**(8,547,845)**	**28,061,931**

The consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out on pages 8 to 21.

(in thousands of Russian roubles, unless otherwise specified)

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 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 22 June 2015. Open Joint Stock Company Kuban Power and Electrification (OJSC "Kubanenergo") was changed to Public Joint Stock Company Kuban Power and Electrification (PJSC "Kubanenergo").

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

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

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

		Ownership, %	
Subsidiaries	**Principal activity**	**31 March 2017**	**31 December 2016**
OJSC "Pansionat otdyha "Energetik"	Recreation	100	100
OJSC "Energoservis Kubani"	Repair services	100	100

According to the decision of the Arbitration Court of Krasnodar region dated 2 September 2015 the insolvency (bankruptcy) procedure of OJSC "Ozdorovitelniy kompleks "Plamya" was started. As a result, the Company lost control over the subsidiary and disclosed the disposal of the subsidiary in the consolidated financial statements for the year ended 31 December 2015.

(б) 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 companies can raise the capital required to maintain and expand current capacity.

On 1 July 2008 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 Joint Stock Company ROSSETI in April 2013.

Due to amendments in 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 30 June 2015. Open Joint Stock Company Rosseti (OJSC "Rosseti") was changed to Public Joint Stock Company ROSSETI (PJSC "ROSSETI"). The new edition of Company`s Charter with the changed company`s name was registered on 17 July 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.

As at 31 March 2017, the Government of the Russian Federation owned 88.89% of the voting ordinary shares and 7.01% of preference shares of PJSC ROSSETI , which in its turn owned 92.24% of the Company.

(в) 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 legislation, the Group's tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commissions. The Federal Service on Tariffs and the Regional Energy Commissions was dismissed on 21 July 2015, and its authorities have been transferred to Federal Antimonopoly Service.

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.

(г) Russian business environment

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

For the three months ended 31 March 2017 and in 2016, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. As of 31 March 2017 the key rate was 9.75%. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

2 BASIS OF PRESENTATION

(a) Statement of compliance

These interim condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* for the three month ended 31 March 2017.

The interim condensed financial statements should be read in conjunction with the financial statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards ("IFRS").

(б) Basis of measurement

The consolidated interim condensed 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 January 1, 2011.

(в) Functional and presentation currency

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

(г) Use of estimates and judgments

The preparation of the consolidated interim condensed 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 those estimates.

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial period is included in the Note 16 - commitments and contingencies.

3 SINGNIFICANT ACCOUNTING POLICIES

Except for the adoption of the new standards and interpretations effective as at 1 January 2017, the accounting policies applied by the Company were consistent with those applied in the financial statements as at and for the year ended 31 December 2016.

(a) New Standards and Interpretations not yet adopted

A number of new Standards and amendments to Standards are not yet effective up to the date of issuance of the financial statements, and have not been applied in preparing these financial statements:

- IFRS 9 *Financial Instruments* . IFRS 9 is effective for annual periods beginning on or after 01 January 2018 with earlier application permitted.
- IFRS 15 *Revenue from Contracts with Customers* and amendments to IFRS 15 *Revenue from Contracts with Customers.* IFRS 15 is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.
- IFRS 16 *Leases*. 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.

The Company is currently assessing the impact of these standards on the financial information. The Company does not intend to adopt the standards early.

- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates* in respect of sale of contribution of assets between an investor and its associate of joint venture.

These amendments are not expected to have any impact or impact significantly on the Group's financial information.

(б) Impact of new standards, interpretations and amendments

The amendments to the standards specified below became effective on 1 January 2017:

- Amendments to IAS 7 *Statement of Cash Flows.* The amendment requires that entities shall provide a reconciliation between the opening and closing balances for items of the statement cash flows except for equity.
- Amendments to IAS 12 *Income Taxes. Recognition of Deferred Tax Assets for Unrealised Losses*. This amendment clarifies the requirements to recognise a deferred tax assets arising from debt instruments carried at fair value.

Adoption of the amendments will not have a significant impact on the Group's financial position or its performance.

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 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 purposes.

(б) Non-derivative financial liabilities

Fair value, 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.

(in thousands of Russian roubles, unless otherwise specified)

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 region and Republic of Adygeya) and is managed in common. The "other" segment includes insignificant 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 the first three months of 2017 or 2016.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the consolidated interim condensed financial statements prepared under IFRS. Reconciliation of items measured as reported to the Management Board with similar items in these consolidated interim condensed 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 period 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 three months ended 31 March 2017:

	Kubanenergo	Other	Total
Revenue from external customers	10,115,135	15,133	**10,130,268**
Inter-segment revenue	(489)	(13,918)	**(14,407)**
Total segment revenue	**10,114,646**	**1,215**	**10,115,861**
Segment operating profit / (loss)	**(279,645)**	**1,888**	**(277,757)**
Finance income	5,573	**34**	**5,607**
Finance costs	(494,436)		**(494,436)**
Segment profit/(loss) before income tax	**(111,273)**	**2,980**	**(108,293)**
Depreciation	933,070	1,211	934,281
EBITDA	**1,316,233**	**4,191**	**1,320,424**

For the three months ended 31 March 2016:

	Kubanenergo	Other	Total
Revenue from external customers	10,494,416	2,476	**10,496,892**
Inter-segment revenue	279	-	**279**
Total segment revenue	**10,494,695**	**2,476**	**10,497,171**
Segment operating profit / (loss)	**378,250**	**(6,646)**	**371,604**
Finance income	36,998	-	36,998
Finance costs	(458,320)	-	(458,320)
Segment profit/(loss) before income tax	**693,223**	**(8,306)**	**684,917**
Depreciation	911,632	1,132	912,764
EBITDA	**2,063,175**	**(7,174)**	**2,056,001**

As at 31 March 2017:

	Kubanenergo	Other	Total
Segment assets	**68,265,054**	**71,621**	**68,336,675**
Including property, plant and equipment	*54,902,175*	*31,339*	*54,933,514*

As at 31 December 2016:

	Kubanenergo	Other	Total
Segment assets	**67,288,201**	**54,048**	**67,342,249**
Including property, plant and equipment	*55,910,737*	*32,550*	*55,943,287*

(in thousands of Russian roubles, unless otherwise specified)

(ii) Reconciliation of reportable segments profit/(loss) before income tax

Reconciliation of reportable segment profit/(loss) before income tax is presented below:

	Three months ended 31 March 2017 (Unaudited)	Three months ended 31 March 2016 (Unaudited)
EBITDA of reportable segments	**1,320,424**	**2,056,001**
Less depreciation and amortisation	494,436	458,320
Less interest expense	934,281	912,764
Total segment (loss)/profit before income tax	**(108,293)**	**684,917**
Adjustments for:		
Capitalization	(8,746)	3,213
Revenue from electricity transmission		25,276
Depreciation and loss from disposal of property, plant and equipment	180,892	204,734
Accrual of provision for unused vacations and bonuses	(13,997)	(15,507)
Impairment of accounts receivable	356	(27)
Recognition of pension liabilities	2,877	(5,101)
Recognition of expenses	(3,776)	(31,204)
Other adjustments	2,671	560
Profit before income tax for the period per Consolidated Interim Statements of Profit or Loss and Other comprehensive Income	**51,984**	**866,861**

The Group performs its activities in the Russian Federation.

For the three months ended 31 March 2017 the Group had two major customers - distribution companies in Krasnodar region 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 three months ended 31 March 2017 was RUB 8,288,624 thousand or 81.8% of the Group's total revenues (for the three months ended 31 March 2016: RUB 8,168,178 thousand or 77.8%).

6 REVENUE

	Three months ended 31 March 2017	Three months ended 31 March 2016
Electricity transmission	9,892,964	9,449,433
Connection services	204,718	1,026,139
Rental income	3,208	2,738
Repairs and maintenance	991	861
Other revenue	13,980	17,721
	10,115,861	**10,496,892**

(in thousands of Russian roubles, unless otherwise specified)

7 OPERATING EXPENSES

	Three months ended 31 March 2017 (Unaudited)	Three months ended 31 March 2016 (Unaudited)
Electricity transmission	3,371,199	3,653,478
Purchased electricity for compensation of technological losses	2,359,048	2,369,743
Personnel costs	1,307,917	1,315,247
Depreciation and amortisation	770,609	717,695
Legal claims	488,614	263,142
Recovery of impairment of trade and other receivables	228,359	107,810
Raw materials and supplies	171,070	149,434
Rent	58,136	32,399
Security services	47,100	48,338
Repairs, maintenance and installation services	35,506	25,298
Business trip expenses	22,929	23,777
Insurance	19,005	19,046
Consulting, legal and audit services	1,640	1,723
Other expenses	782,786	498,959
	9,663,918	**9,226,089**

8 OTHER OPERATING INCOME

	Three months ended 31 March 2017 (Unaudited)	Three months ended 31 March 2016 (Unaudited)
Insurance compensation received	55,094	10,605
Income from inventories received from liquidation of property, plant and equipment	26,402	3,743
Fines and penalty received from contractors for contractual breaches	6,415	169
Non-contractual consumption of electricity	5,215	7,590
Income from inventories received free of charge	1,157	512
Income from property, plant and equipment received free of charge	822	451
Write-off accounts payable	818	254
Income from sale of property, plant and equipment	229	726
Loss on disposal of intangible assets	-	(3,393)
Write off of property, plant and equipment, including prepayments for property, plant and equipment	(6,239)	(6,374)
	89,913	**14,283**

9 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 specified)

	Land and production buildings	Transmission network	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/Deemed cost						
Balance at 01 January 2016	7,150,299	34,640,288	13,336,956	6,496,358	3,158,744	**64,782,645**
Additions	1,351	-	271	11,040	727,233	**739,895**
Transfers	1,442	144,155	58,191	383	(204,171)	-
Disposals	(69)	(2,237)	(6,326)	(4,700)	(4,406)	**(17,738)**
Reclassifications	(21,185)	(6,104)	26,873	416	-	-
Balance at 31 March 2016 (unaudited)	**7,131,838**	**34,776,102**	**13,415,965**	**6,503,497**	**3,677,400**	**65,504,802**
Balance at 01 January 2017	7,447,938	36,165,526	14,402,824	7,173,374	5,369,204	**70,558,866**
Additions	350	1,948	48,388	48,772	1,046,247	**1,145,705**
Transfers	254	226,884	72,261	28	(299,427)	-
Disposals	(1,516)	(4,879)	(2,185)	(12,429)	(1,005)	**(22,014)**
Reclassifications	163	(100)	(63)	-	-	-
Balance at 31 March 2017 (unaudited)	**7,447,189**	**36,389,379**	**14,521,225**	**7,209,745**	**6,115,019**	**71,682,557**

(in thousands of Russian roubles, unless otherwise specified)

Accumulated depreciation and impairment						
Balance at 01 January 2016	(2,123,229)	(8,067,995)	(5,421,686)	(3,785,005)	(145,519)	**(19,543,434)**
Reallocation of impairment charge	(1)	(1,593)	(721)	(1)	2,316	-
Charge for the period	(58,582)	(312,522)	(191,456)	(141,623)	-	**(704,183)**
Disposals	64	672	3,766	3,432	-	**7,934**
Reclassifications	8,426	129	(8,723)	168	-	-
Balance at 31 March 2016	**(2,173,322)**	**(8,381,309)**	**(5,618,820)**	**(3,923,029)**	**(143,203)**	**(20,239,683)**
Balance at 01 January 2017	(2,350,190)	(9,323,005)	(6,109,542)	(4,438,517)	(109,543)	**(22,330,797)**
Reallocation of impairment charge	(19)	(1,774)	(875)	-	2,668	-
Charge for the period	(64,181)	(336,874)	(206,585)	(147,738)	-	**(755,378)**
Disposals	760	1,413	1,166	12,408	29	**15,776**
Reclassifications	(78)	-	78	-	-	-
Balance at 31 March 2017 (unaudited)	**(2,413,708)**	**(9,660,240)**	**(6,315,758)**	**(4,573,847)**	**(106,846)**	**(23,070,399)**
Carrying amount						
At 01 January 2016	**5,027,070**	**26,572,293**	**7,915,270**	**2,711,353**	**3,013,225**	**45,239,211**
At 31 March 2016 (unaudited)	**4,958,516**	**26,394,793**	**7,797,145**	**2,580,468**	**3,534,197**	**45,265,119**
At 01 January 2017	**5,097,748**	**26,842,521**	**8,293,282**	**2,734,857**	**5,259,661**	**48,228,069**
At 31 March 2017 (unaudited)	**5,033,481**	**26,729,139**	**8,205,467**	**2,635,898**	**6,008,173**	**48,612,158**

10 EQUITY

Share capital

	31 March 2017	31 December 2016
Par value	RUB 100	RUB 100
Number of ordinary shares authorised, issued and fully paid	282,868,130	282,868,130
Total share capital (in thousands of RUB)	**28,286,813**	**28,286,813**

Dividends

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

At the annual shareholders meeting held on 24 June 2016 the decision was made to pay dividends for the year ended 31 December 2015 in the amount of RUB 1,144,797 thousand (RUB 4.047105 per ordinary share). No dividends were declared for 2016.

11 EARNINGS PER SHARE

The calculation of earnings per share is based upon the profit for the period and the weighted average number of ordinary shares outstanding during the period. The Company has no dilutive potential ordinary shares.

In shares	**Three months ended 31 March 2017 (Unaudited)**	**Three months ended 31 March 2016 (Unaudited)**
Issued shares at 1 January	282,868,130	282,868,130
Weighted average number of shares as at 31 March	**282,868,130**	**282,868,130**

In shares	**Three months ended 31 March 2017 (Unaudited)**	**Three months ended 31 March 2016 (Unaudited)**
Weighted average number of ordinary shares for the period (thousand of shares)	282,868	282,868
(Loss)/earnings attributable to the holders of ordinary shares (thousands of RUB)	(147,608)	191,765
(Loss)/Earnings per share - basic and diluted (in RUB)	**(0.52)**	**0.68**

(in thousands of Russian roubles, unless otherwise specified)

12 INTANGIBLE ASSETS

	Software	Certificates and licenses	R&D	Other intangible assets	Итого
Cost					
Balance at 1 January 2016	**212,826**	**5,295**	**15,741**	**11,541**	**245,403**
Additions	6,188	-	-	-	**6,188**
Disposals	(3,393)	-	-	-	(3,393)
Balance at 31 March 2016	**215,621**	**5,295**	**15,741**	**11,541**	**248,198**
Balance at 1 January 2017	**280,722**	**5,295**	**14,511**	**11,541**	**312,069**
Additions	661		4,398		**5,059**
Balance at 31 March 2017	**281,383**	**5,295**	**18,909**	**11,541**	**317,128**
Amortisation					
Balance at 1 January 2016	**(144,107)**	**(4,010)**	-	**(1,221)**	**(149,338)**
Charge for the period	(15,355)	(386)	-	(912)	**(16,653)**
Disposals	2,205	-	-	-	**2,205**
Balance at 31 March 2016	**(157,257)**	**(4,396)**	-	**(2,133)**	**(163,786)**
Balance at 1 January 2017	**(193,678)**	**(5,295)**	-	**(4,869)**	**(203,842)**
Charge for the period	(14,675)	-	-	(913)	**(15,588)**
Balance at 31 March 2017	**(208,353)**	**(5,295)**	-	**(5,782)**	**(219,430)**
Carrying amount					
At 1 January 2016	**68,719**	**1,285**	**15,741**	**10,320**	**96,065**
At 31 March 2016	**58,364**	**899**	**15,741**	**9,408**	**84,412**
At 1 January 2017	**87,044**	-	**14,511**	**6,672**	**108,227**
At 31 March 2017	**73,030**	-	**18,909**	**5,759**	**97,698**

13 LOANS AND BORROWINGS

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

	31 March 2017 (Unaudited)	31 December 2016
Non-current loans and borrowings		
Unsecured bank loans	14,665,600	11,912,239
Bonds issued	7,000,000	7,000,000
	21,665,700	**18,912,239**
Current loans and borrowing		
Unsecured loans	1,522	1,022
Interest payable	288,827	79,078
	290,349	**80,100**

(in thousands of Russian roubles, unless otherwise specified)

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

	Nominal interest rate (fixed), %			Carrying amount	
	31 March 2017 (Unaudited)	**31 December 2016**	**Year of maturity**	**31 March 2017 (Unaudited)**	**31 December 2016**
PJSC Sberbank*	9.73-9.80%	9.90%	2019	5,100,000	2,000,000
PJSC "ROSSETI"*	10.44-12.63%	10.44-12.63%	2019-2025	7,000,000	7,000,000
Gazprombank (JSC)*	10.00-10.50%	10.00-10.80%	2019	9,409,630	9,912,239
Bank VBRR (JSC)	10.20%		2019	155,969	-
Other	Interest free	Interest free	2016	1,522	1,022
Total				**21,667,121**	**18,913,261**

*Loans and borrowings from the government - related entities.

The Group's loans and borrowings are denominated in Russian Roubles.

14 OTHER PROVISIONS

	Three months ended 31 March 2017 (Unaudited)	**Three months ended 31 March 2016 (Unaudited)**
Balance at 1 January	2,446,329	1,907,775
Provisions raised during the period	519,641	318,901
Provisions reversed during the period	(31,027)	(53,759)
Provisions used during the period	(627,097)	(355,849)
Capitalized	2,136	-
Balance at 31 March	**2,309,982**	**1,817,068**

Provisions relate to the legal proceedings against the Group and unsettled disagreements with distribution selling entities regarding the purchased electric power for the compensation of technological losses and the electricity transmission services and also untimely payment of accounts payable.

15 FINANCIAL RISKS MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2016.

16 CONTINGENCIES AND COMMITMENTS

Capital commitments

As at 31 March 2017 the Group has outstanding commitments for the acquisition and construction of property, plant and equipment of RUB 2,555,388 thousand (31 December 2016: RUB 2,092,294 thousand).

Insurance

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

Litigation

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 March 2017 and 31 December 2016 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 recognized a provision of RUB 2,309,982 thousand (at 31 December 2016: RUB 2,446,329 thousand).

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 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 statements, if the authorities were successful in enforcing their interpretations, could be significant.

Environmental matters

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

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

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.

17 RELATED PARTY TRANSACTIONS

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, Deputies General Director and Directors of the branches. The Company's parent as at 31 March 2017 and 31 December 2016 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.

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:

(in thousands of Russian roubles, unless otherwise specified)

Revenue

	Transaction value for the three months ended 31 March		Outstanding balance	
	2017 (Unaudited)	2016 (Unaudited)	31 March 2017 (Unaudited)	31 December 2016
Parent company				
Other	296	296	117	-
Transactions with other PJSC ROSSETI's subsidiaries				
Rent	12	12	5	9
Other	1		195,570	255,909
Reversal of allowance	27,777	22,364		
Allowance for impairment of other receivables	561		(166,555)	(167,116)
	28,647	**22,672**	**29,137**	**88,802**

Expenses

	Transaction value for the three months ended 31 March		Outstanding balance	
	2017 (Unaudited)	2016 (Unaudited)	31 March 2017 (Unaudited)	31 December 2016
Parent company				
Managing services	19,121	19,121	5,414	5,297
Other	5,428	3,818		
	24,549	**22,939**	**5,414**	**5,297**
Electricity transmission	1,433,474	1,236,919	396,617	371,979
Rent	18	2,980	19,109	31,063
Connection services	1,134	237	-	-
Other	162,576	6,603	89,516	135,224
	1,597,202	**1,246,729**	**505,242**	**538,266**
Capitalized installation and construction activities	-	-	63,169	122,170
	1,621,751	**1,269,668**	**573,825**	**665,733**

Borrowings

	Transaction value for the three months ended 31 March		Outstanding balance	
	2017 (Unaudited)	2016 (Unaudited)	31 March 2017 (Unaudited)	31 December 2016
Parent company				
Bonds issued	-	-	7,000,000	7,000,000
Interest on bonds issued	198,610	200,774	274,424	75,814
	198,610	**200,774**	**7,274,424**	**7,075,814**

For more details about bonds repurchased by PJSC "ROSSETI" see Note 13.

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 which were as follows.

(in thousands of Russian roubles, unless otherwise specified)

	Three months ended 31 March 2017 (Unaudited)		Three months ended 31 March 2016 (Unaudited)	
	Board of Directors	Other key management personnel	Board of Directors	Other key management personnel
Salaries and bonuses	-	1,655	-	2,250

As at 31 March 2017 current amount of liabilities of post-employment defined benefit plan, provided in the Consolidated statement of financial position, includes the liabilities related to key management personnel amounting to RUB 1,218 thousand (as at 31 December 2016: RUB 1,140 thousand).

Transactions with government-related parties

In the course of its operating activities the Group is also engaged in significant transactions with government-related entities. Revenues and purchases from government-related entities are measured at regulated tariffs where applicable.

Revenues from government-related entities for the three months ended 31 March 2017 constitute 0.44% (for the three months ended 31 March 2016: 9.98%) of the total Group revenues. The electricity transmission revenue from government - related entities for the three months ended 31 March 2017 constitutes 0.44% (for the three months ended 31 March 2016: 0.80%) of total Group revenues.

Electricity transmission costs from government-related entities for the three months ended 31 March 2017 constitutes 5.31% (for the three months ended 31 March 2016: 5.08%) of total transmission costs.

Pricing policies

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

18 EVENTS SUBSEQUENT TO THE REPORTING DATE

The facts of economic activity after reporting date of 31 March 2017, which have impacted or can impact the Group's financial position or performance in the future, are not revealed.