

PJSC IDGC OF NORTHERN CAUCASUS

**Consolidated financial statements prepared in accordance with International
Financial Reporting Standards for the year ended 31 December 2017**

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The accompanying notes are an integral part of these consolidated financial statements



RSM RUS LTD

4 Pudovkina street,
Moscow, 119285, Russia
T: +7 495 363 2848
F: +7 495 981 4121
E: mail@rsmrus.ru
www.rsmrus.ru

15.03.2018
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INDEPENDENT AUDITOR'S REPORT

To: the Shareholders of Interregional Distribution Grid Company of Northern Caucasus, Public Joint Stock Company (PJSC "IDGC of Northern Caucasus")

Opinion

We have audited the consolidated financial statements of PJSC IDGC of Northern Caucasus and its subsidiaries (the Group), which comprise the Consolidated Statement of Financial Position as of 31 December 2017, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

Impairment of non-current assets

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

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

Therefore, the value in use for property, plant and equipment as at 31 December 2017 was determined using projected cash flows method. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment during the operating activities and upon disposal, to determine the recoverable amount of these assets.

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

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

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

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

Non-current assets are disclosed in Note 2, 13 and 14 to the consolidated financial statements.

Impairment of accounts receivable

In our opinion, this matter was one of most significance in our audit due to significant balances of the Group's accounts receivable as at 31 December 2017, and because the management estimate of collectability of the receivables is based on the assumptions, in particular, forecasting financial solvency of the Group's customers.

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

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

Accrued accounts receivables impairment allowance is disclosed by the Group in Notes 2, 9, 18 and 28 to the consolidated financial statements.

Recognition and measurement of revenue

Recognition and measurement of revenue were matters of most significance in our audit due to certain imperfection of mechanisms of operation of retail electricity market and it leads to disagreements between electric grid companies and energy supply companies in respect of volume of electricity consumption and capacity. The assessment by the Group's

management of favorable outcome of the dispute resolution is, to a large extent, subjective and is based on the assumptions of dispute resolution.

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

Revenue is disclosed in Note 7 to the consolidated financial statements.

Recognition, measurement and disclosure of provisions and contingent liabilities

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

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

Accrued provisions and contingent liabilities of the Group are disclosed in Notes 27, 30 to the consolidated financial statements.

Other Information

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

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

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

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

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

In preparing the consolidated financial statement, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern

basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

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

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

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

Management Board Chairperson

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

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

Audit Certificate No. 05-000150 Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 15 August 2012 No. 28. Permanent award.

ORNZ in the Register of auditors and audit organizations – 21606091615



K.Kh. Musaelyan

Audited entity:

Interregional Distribution Grid Company of Northern Caucasus, Public Joint Stock Company (abbreviated name - PJSC IDGC of Northern Caucasus);

Location: 13A, Podstancionnaya Street, Pyatigorsk, Stavropol region, 357506, the Russian Federation.

Primary state registration number – 1062632029778.

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.

PJSC IDGC of Northern Caucasus
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017
(in thousands of Russian roubles, unless otherwise specified)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	7	18,397,328	17,912,482
Operating expenses	9	(24,533,546)	(22,257,535)
Other income, net	8	520,514	150,468
Results from operating activities		(5,615,704)	(4,194,585)
Finance income	11	132,158	172,443
Finance costs	11	(1,263,697)	(993,919)
Net finance costs		(1,131,539)	(821,476)
Profit/(loss) before tax		(6,747,243)	(5,016,061)
Income tax expense	12	533,361	(140,990)
Profit (loss) for the reporting year		(6,213,882)	(5,157,051)
Other comprehensive income (loss)			
<i>Items that will never be reclassified subsequently to profit or loss:</i>			
Remeasurements of defined benefit liability		(134,276)	11,350
Income tax related to items that will never be reclassified subsequently to profit or loss		20,549	(1,527)
Total items that will never be reclassified subsequently to profit or loss		(113,727)	9,823
Other comprehensive income (loss) for the reporting period, net of income tax		(113,727)	9,823
Total comprehensive income (loss) for the reporting year		(6,327,609)	(5,147,228)
Loss per share			
Basic and diluted earnings (loss) per ordinary share (in RUB)		(32.13)	(33.37)

These consolidated financial statements were approved by management on 15 March 2018 and were signed on its behalf by:

First Deputy General Director



I.V. Thakakhova
by power of attorney № 2 of 1 January 2018

Chief Accountant




N.V. Larionova

The accompanying notes are an integral part of these consolidated financial statements

PJSC IDGC of Northern Caucasus
Consolidated Statement of Financial Position as at 31 December 2017
(in thousands of Russian roubles, unless otherwise specified)

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	13	12,670,622	13,755,544
Intangible assets	14	114,433	98,471
Trade and other receivables	18	716,868	80,082
Assets related to employee benefit plans	25	291,454	283,683
Other non-current assets	15	787,464	787,493
Deferred tax assets	16	3,421,654	2,855,064
Total non-current assets		18,002,495	17,860,337
Current assets			
Inventories	17	628,982	581,219
Income tax prepayment		82,503	25,818
Trade and other receivables	18	5,189,598	4,328,277
Cash and cash equivalents	19	1,160,972	2,933,184
Non-current assets held for sale	20	7,343	3,411
Total current assets		7,069,398	7,871,909
Total assets		25,071,893	25,732,246
EQUITY AND LIABILITIES			
Equity			
Share capital	21	154,562	154,562
Additional paid in capital	21	5,052,502	5 052 502
Reserve for issue of shares		4,094,730	1,642,300
Other reserves		(213,219)	(99,492)
Retained earnings		(10,135,972)	(3,922,773)
Total equity attributable to owners of the Company		(1,047,397)	2,827,099
Non-current liabilities			
Loans and borrowings	23	7,302,195	5,805,943
Trade and other payables	26	4,644,189	458,031
Employee benefit liabilities	25	828,763	626,288
Total non-current liabilities		12,775,147	6,890,262
Current liabilities			
Loans and borrowings	23	2,013,540	4,900,486
Trade and other payables	26	10,545,622	10,328,944
Provisions	27	238,057	181,920
Taxes payable	26	546,924	603,535
Total current liabilities		13,344,143	16,014,885
Total liabilities		26,119,290	22,905,147
Total equity and liabilities		25,071,893	25,732,246

The accompanying notes are an integral part of these consolidated financial statements

PJSC IDGC of Northern Caucasus
Consolidated Statement of Cash Flows for the year ended 31 December 2017
(in thousands of Russian roubles, unless otherwise specified)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(6,747,243)	(5,016,061)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment and amortization of intangible assets	13,14.9	1,515,527	1,529,427
<i>Impairment of accounts receivable</i>	18.9	1,009,731	1,307,019
<i>Impairment of inventories</i>	17.9	5,848	1,966
Impairment/(reversal of impairment) of property, plant and equipment	13.9	905,688	870,019
Finance income	11	(132,158)	(172,443)
Finance costs	11	1,263,697	993,919
<i>Loss/(gain) on disposal of property, plant and equipment</i>	8	(10,238)	(14,778)
<i>Bad debts write-off</i>	9	-	969
<i>Accounts payable write-off</i>	8	(6,929)	(21,099)
<i>Gain on property, plant and equipment received free of charge</i>	8	(9,805)	(6,478)
<i>Other non-cash transactions</i>		(11,760)	(1,525)
Cash flows from operating activities before changes in working capital and provisions		(2,217,642)	(529,065)
<i>Changes in working capital:</i>			
		(2,540,077)	(2,668,859)
Change in trade and other receivables (less provision for impairment)			(56,585)
Change in inventories (less provision for impairment of inventories)		3,861,994	3,774,799
Change in trade and other payables		(91,855)	(90,116)
Change in taxes payable other than income tax		(146,578)	8,827
Changes in financial assets related to employee benefits plan		202,475	(79,624)
Change in employee benefit obligations		56,137	131,989
Cash flows from operating activities before income tax and interest paid		(932,131)	542,281
Income tax paid		(54,670)	(333,303)
Interest paid		(1,055,640)	(892,484)
Net cash from/(used in) operating activities		(2,042,441)	(683,506)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		3,344	1,986
Proceeds from disposal of assets held for sale		2,759	859
Acquisition of property, plant and equipment		(942,373)	(912,350)
Acquisition of intangible assets		(43,999)	(43,213)
Withdrawal of bank deposits and disposal of financial investments		74,727	-
Opening of bank deposits and acquisition of financial investments		-	(74,727)
<i>Interest received</i>		95,217	103,668
<i>Dividends received</i>		1	-
Net cash from/(used in) investing activities		(810,324)	(923,777)

The accompanying notes are an integral part of these consolidated financial statements

PJSC IDGC of Northern Caucasus
Consolidated Statement of Cash Flows for the year ended 31 December 2017
(in thousands of Russian roubles, unless otherwise specified)

	Note	<u>Year ended 31 December 2017</u>	<u>Year ended 31 December 2016</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		6,124,164	7,977,632
Repayment of loans and borrowings		(7,496,028)	(6,675,492)
Repayment of finance lease liabilities		-	(7,910)
Dividends paid		(11)	(571)
Proceeds from shares issued		2,452,428	1,642,300
Net cash from/(used in) financing activities		<u>1,080,553</u>	<u>2,935,959</u>
Net increase/(decrease) in cash and cash equivalents		<u>(1,772,212)</u>	<u>1,328,676</u>
Cash and cash equivalents at the beginning of the period		<u>2,933,184</u>	<u>1,604,508</u>
Cash and cash equivalents at the end of the period		<u><u>1,160,972</u></u>	<u><u>2,933,184</u></u>

The accompanying notes are an integral part of these consolidated financial statements

PJSC IDGC of Northern Caucasus
Consolidated Statement of Changes in Equity for the year ended 31 December 2017
(in thousands of Russian roubles, unless otherwise specified)

	Share capital	Additional paid in capital	Reserve for issue of shares	Provisions	Retained earnings	Total equity
Balance at 1 January 2017	154,562	5,052,502	1,642,300	(99,492)	(3,922,773)	2,827,099
Loss for the period	-	-	-	-	(6,213,882)	(6,213,882)
Other comprehensive income	-	-	-	(134,276)	-	(134,276)
Income tax on other comprehensive income	-	-	-	20,549	-	20,549
Total comprehensive income for the period	-	-	-	(113,727)	(6,213,882)	(6,327,609)
Transactions with owners of the Company						
Contributions and distributions						
Issue of shares	-	-	2,452,430	-	-	2,452,430
Other transactions	-	-	-	-	683	683
Total contributions and distributions	-	-	2,452,430	-	683	2,453,113
Balance at 31 December 2017	154,562	5,052,502	4,094,730	(213,219)	(10,135,972)	(1,047,397)

The accompanying notes are an integral part of these consolidated financial statements

PJSC IDGC of Northern Caucasus
Consolidated Statement of Changes in Equity for the year ended 31 December 2017
(in thousands of Russian roubles, unless otherwise specified)

	Share capital	Additional paid in capital	Reserve for issue of shares	Provisions	Retained earnings	Total equity
Balance at 1 January 2016	154,562	5,052,502	-	(109,315)	1,231,819	6,329,568
Loss for the period	-	-	-	-	(5,157,051)	(5,157,051)
Other comprehensive income	-	-	-	11,350	--	11,350
Income tax on other comprehensive income	-	-	-	(1,527)	--	(1,527)
Total comprehensive income for the period	-	-	-	9,823	(5,157,051)	(5,147,228)
Transactions with owners of the Company						
Contributions and distributions						
Issue of shares	-	-	1,642,300	-	-	1,642,300
Other transactions	-	-	-	-	2,459	2,459
Total contributions and distributions	154,562	5,052,502	1,642,300	(99,492)	(3,922,773)	2,827,099
Balance at 31 December 2016	154,562	5,052,502	1,642,300	(99,492)	(3,922,773)	2,827,099

The accompanying notes are an integral part of these consolidated financial statements

1 Background

(a) The Group and its operations

The primary activities of PJSC IDGC of Northern Caucasus (hereinafter, the "Company" or PJSC IDGC of Northern Caucasus) and its subsidiaries (together referred to as the "Group") are provision of services for transmission of electricity, technological connection of consumers to the networks and sale of electricity to end users in certain regions of the Russian Federation.

The parent is PJSC ROSSETI.

(b) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group's business is influenced by the economics 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 conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and other countries, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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

(c) Relations with the state

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

As at 31 December 2017, the Russian Government owned 88.04% in the share capital of the parent PJSC Rosseti, including 88.89% of the voting ordinary shares and 7.01% of the preference shares. As at 31 December 2017, PJSC Rosseti owned 92.00% in the share capital of PJSC IDGC of Northern Caucasus.

As at 31 December 2016, the Government of the Russian Federation represented by the Agency for State Property Management owned 88.75% of the voting ordinary shares and 7.01% of the preference shares of PJSC ROSSETI, which in its turn owned 92.00% of the Company.

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

2 Basis of Preparation of Consolidated Financial Statements

(a) Statement of compliance

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

Each subsidiary of the Group maintains accounting records and prepares its financial statements in accordance with the Russian Accounting Standards (hereinafter referred to as "RAS") individually. The consolidated financial statements of the Group have been prepared on the basis of the RAS accounting records adjusted and reclassified for the purposes of fair presentation in accordance with IFRS.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and professional judgments

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

Professional judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates and assumptions that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of property, plant and equipment

At each reporting date, the Group management assesses whether there are any indicators that property, plant and equipment may be impaired. Such indicators include changes in business plans, tariffs and other factors that may lead to unfavourable conditions for the Group's activities. When measuring the value in use the management assesses estimated cash flows from a cash-generating asset or a group of assets and chooses a justified discount rate to calculate the present value of cash flows. For more detail refer to note *Property, Plant and Equipment*.

Impairment of accounts receivable

Provision for impairment of accounts receivable is based on management assumptions of debt recovery made for each debtor individually. Objective indicators of impairment are default or debtor failure to

meet contractual obligations, debt restructuring to the Group under such terms that would have never been taken in regular conditions, signs of possible bankruptcy, unfavourable change in debtors paying capacity. When cash inflow is not expected in regard with an account receivable, such account receivable is written off against the previously created provision..

Future cash flows with regard to accounts receivable to be assessed for impairment are estimated on the basis of the contractual cash flows and on the basis of the historical loss experience and on the possibility to recover the past-due debts. Historical information on losses is adjusted on the basis of current available information to record existent conditions that were not effective during the past periods of losses and excluding those conditions that are not active at the current moment.

Pension obligations

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

Deferred tax assets recognition

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

(e) Adoption of New and Revised Standards or Interpretations

In 2017, the Group applied all IFRSs and amendments to IFRS which became effective from 1 January 2017 and relate to the Group's business. These amendments did not have any significant impact on the Group's consolidated financial statements.

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

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

IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Under IFRS 15, revenue is recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early application is permitted. The Standard will not have a significant effect on the consolidated financial statements.

IFRS 16 *Leases*. IFRS 16 was issued in January 2016 and supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases - Incentives*, and SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*. IFRS 16 sets out the requirements for the recognition, measurement, presentation and disclosures of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard provides for two exemptions from recognition for lessees - with respect to low value leased assets (e.g. personal computers) and short-term lease (up to 12 months).

The Group intends to apply both exemptions. At the inception of the lease, the lessee will recognise a lease payment liability and an underlying asset to use the base asset during the lease term (i.e. an asset in the form of right of use). The Group will be required to recognise interest expense on the lease liability separately from depreciation of the asset in the form of right of use). IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but after adoption of IFRS 15 only. The Group can choose to apply the standard using either a retrospective or a modified retrospective approach. The standard's transition provisions contain certain exemptions. The Group is assessing the impact of the standard on its consolidated financial statements.

The following amendments to standards and interpretations are not expected to impact significantly the Group's consolidated financial statements:

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

(f) Changes in presentation

Certain comparative amounts for the previous period have been reclassified to conform to the current year's presentation. All reclassifications are insignificant.

3 Significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

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

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

(ii) Business combinations

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

The Group measures goodwill at the acquisition date as:

- 1) the fair value of the consideration transferred; plus
- 2) the recognised amount of any non-controlling interests in the acquiree; plus
- 3) the fair value of the pre-existing equity interest in the acquiree if the business combination is achieved in stages; less
- 4) the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

(iii) Accounting for acquisitions of non-controlling interests

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

(iv) Acquisitions from entities under common control

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

(v) Investments in associates (equity accounted investees)

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

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

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

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any 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) Foreign currency

(i) Foreign currency transactions

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in translation are recognised in profit or loss for the period, except

for differences arising on the retranslation of equity instruments classified as available-for-sale financial assets which are recognised in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

(ii) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated at fair value. 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 include: loans and receivables, cash and cash equivalents, available-for-sale financial assets and held for maturity financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are 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. Receivables are presented inclusive of value-added tax.

Cash and cash equivalents

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

Financial assets held-to-maturity

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3 (g)(i))**Ошибка! Не указано имя закладки.** and foreign currency differences on available-for-sale debt instruments (see note 3(b)(i))**Ошибка! Не указано имя закладки.**), are recognised in other comprehensive income and presented within equity in other reserves. When an investment is derecognised or impaired, the cumulative gain or loss within equity is transferred to profit or loss for the period. Unquoted equity instruments whose fair value cannot be reliably measured are carried at the acquisition cost less impairment losses at the end of each reporting period. Available-for-sale financial assets comprise equity securities.

(iii) Non-derivative financial liabilities

The Group initially recognises debt securities issued on the date that they are originated. All other 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.

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

(d) Share capital

Ordinary shares are classified as equity.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2010, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is 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 significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net in the item "Net other income", within the profit or loss for the year.

(ii) Subsequent expenditure

The cost of replacing part (major component) 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 the statement of profit or loss and other comprehensive income as incurred.

(iii) Depreciation

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. Land is not depreciated.

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

- Buildings 7-80 years;
- Electricity transmission network 5-60 years;
- Equipment for electricity transmission 5-40 years;
- Other assets 1-50 years.

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

f) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates, and joint ventures.

For the measurement of goodwill at initial recognition see Note 3(a)(ii).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. With respect to associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Other intangible assets

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

(iii) 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 the statement of profit or loss and other comprehensive income as incurred.

(iv) Amortisation

Amortisation expense on intangible assets, other than goodwill 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 of intangible assets for the current and comparative period are as follows:

- Licenses and certificates 3-7 years;
- Software 1-10 years.
- Other intangibles 1-10 years.

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

g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as 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 (discounted) lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

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

h) Inventories

Inventories are measured at the lower of cost or net realisable value. The cost is determined on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or processing 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 of the Group, less the estimated costs of completion and selling expenses.

(i) Advances given

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

(j) Value-added tax

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

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

(k) Impairment of assets

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, 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 original effective interest rate. Losses are recognised in profit or loss and reflected in a provision account against receivables. 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, the decrease in impairment loss is reversed through profit or loss for the period.

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

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

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date. An impairment loss is recognised if the carrying amount of an asset or its 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 of the asset (this unit) 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units which it related to.

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

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

An impairment loss in respect of goodwill is not reversed. 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 (independent) 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.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan differing from a defined contribution plan. The Group's net obligation 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. Determined using such method benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

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

other expenses related to defined benefit plans are recognised in profit or loss. Actuarial gains and losses on changes in actuarial assumptions are recognised in other comprehensive income/expense.

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

(iii) Other non-current employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Remeasurements are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

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

A liability is 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 and it is highly probable that there will be an outflow of economic benefits.

(m) 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.

(n) Revenue

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

(i) Electricity transmission and sale services

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

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

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

(ii) Services for technological connection to electric grids

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

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

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

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

(iii) Other sales

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

(o) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant related to an asset, it is recognised as income, less the related expenses, in equal amounts over the expected useful life of the related asset.

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

(p) Other expenses

(i) Lease payments

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

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

Determining whether an agreement contains a lease

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

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

value of the underlying asset contract. Subsequently the liability is reduced as payments are made and an imputed finance expense is recognised.

(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. The Group's costs related to the financing of social programs, without making a commitment with respect to such financing in the future date are recognised in the consolidated statement of profit or loss and other comprehensive income as they arise.

(q) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, discounts on financial instruments, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs are comprised of interest expense on borrowings, financial leasing, foreign currency losses, discounts on financial instruments and impairment losses 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 costs, depending on whether foreign currency movements are in a net gain or net loss position.

(r) Income tax expense

Income tax expense comprises current income tax and deferred tax. Current and deferred income tax is recognised in profit or loss for the year except to the extent that it relates to a business combination, or transactions 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 income 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:

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

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

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

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The

Group accrues tax liabilities for open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions, and may involve a series of judgement about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expenses 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.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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.

(s) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(t) Segment Reporting

The Group identifies and presents operating segments based on the information that internally is reported to the General Director of the Company, who is the Group’s chief operating decision maker.

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. An operating segment’s operating results are reviewed regularly by the General Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Financial results that are reported to the General Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are most represented by revenue, expenses, assets and liabilities of the Company.

Segment capital expenditure is represented by acquisition cost of property, plant and equipment and intangible assets (except for goodwill).

Inter-segment pricing is based on general commercial conditions.

4 Measurement of fair values

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

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in Note 28.

5 Significant subsidiaries

	<u>Country of incorporation</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
		<u>% ownership/voting shares</u>	<u>% ownership/voting shares</u>
JSC Grid Company of Dagestan	Russian Federation	100	100

6 Information about segments

The General Director of PJSC IDGC of Northern Caucasus has been determined as the Chief Operating Decision-Maker.

The Group's primary activity is the provision of electricity transmission services, technological connection to electricity grids and sale of electricity to end users in the Republic of Ingushetia.

The internal management reporting system is based on segments (branches formed on a territorial basis) relating to electricity transmission and distribution, technological connection to electricity grids and sale of electricity to end users in certain regions of the Russian Federation.

Performance of each reportable segment is measured based on revenue, profit before tax since they are included in internal management reporting prepared on the basis of RAS reporting data and are regularly analyzed and evaluated by the General Director. The General Director believes that these indicators are most relevant when assessing the performance of certain segments in relation to other segments and other companies that operate in these industries.

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

- Dagestan Republic, North Ossetia-Alania Republic, Stavropol Territory, Kabardino-Balkaria and Karachaevo-Cherkessia Republics, Republic of Ingushetia.

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

Segment items are based on financial information reported in statutory accounts and can differ from those for financial statements prepared under IFRS. The reconciliation of items measured as reported to the General Director 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.

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

(a) **Information about reportable segments**

As at and for the year ended 31 December 2017:

	Stavropol Territory	Dagestan Republic	North Ossetia-Alania	Kabardino-Balkarian Republic	Karachayev-Cherkessian Republic	Republic of Ingushetia	Total
Revenue:							
Revenue from external customers	7,644,989	2,929,631	2,319,162	2,158,510	1,569,636	1,670,336	18,292,264
Inter-segment revenue	-	566,059	-	-	-	-	566,059
Total segment revenue	7,644,989	3,495,690	2,319,162	2,158,510	1,569,636	1,670,336	18,858,323
Including:							
<i>Electricity transmission</i>	7,565,478	2,888,167	2,284,549	2,145,296	1,563,661	-	16,447,151
Technological connection	65,382	5,643	25,147	5,268	2,028	835	104,303
<i>Other revenue</i>	14,129	601,880	9,466	7,946	3,947	1,669,501	2,306,869
Finance income							
Finance costs	(120,644)	(115,773)	(350,070)	(243,213)	(33,892)	(122,436)	(986,028)
Depreciation and amortization	(742,313)	(498,140)	(232,633)	(197,747)	(175,608)	(134,082)	(1,980,523)
Profit/(loss) before tax	164,344	(5,598,846)	16,546	(279,246)	(144,907)	(1,043,062)	(6,885,171)
Reportable segment assets	8,218,412	10,145,677	4,525,721	3,632,271	2,495,068	2,010,878	31,028,027
<i>Including property, plant and equipment</i>	6,791,180	6,844,847	2,216,160	2,086,057	1,865,035	888,710	20,691,989
<i>Capital expenditure</i>	194,833	(168,330)	425,641	74,469	141,016	58,276	725,905
Segment liabilities	3,834,305	12,267,433	4,152,823	2,971,091	1,164,325	2,496,708	26,886,685

As at and for the year ended 31 December 2016:

	Electricity transmission					Total
	Stavropol Territory	Dagestan Republic	North Ossetia-Alania Republic	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	
Revenue						
Revenue from external customers	7,998,254	2,863,627	1,944,691	2,025,556	1,480,024	17,804,705
Inter-segment revenue	–	551,217	–	–	–	551,217
Total segment revenue	7,998,254	3,414,844	1,944,691	2,025,556	1,480,024	18,355,922
Including:						
<i>Electricity transmission</i>	7,859,942	2,801,371	1,920,558	2,014,295	1,464,000	16,882,864
Technological connection	99,717	4,180	11,247	5,531	10,469	131,867
<i>Other revenue</i>	38,595	609,293	12,886	5,730	5,555	1,341,191
Finance income	75,702	–	18,177	19,322	14,153	136,584
Finance costs	(484,266)	–	(116,081)	(123,822)	(90,095)	(873,176)
Depreciation and amortization	(781,230)	(496,791)	(233,752)	(210,403)	(185,121)	(2,034,700)
Profit/(loss) income tax	(149,023)	(3,956,792)	(174,852)	178,873	12,498	(4,485,215)
Segment assets	8,795,541	8,824,781	3,359,578	3,339,505	2,241,898	28,481,203
Including property, plant and equipment and construction in progress	7,276,094	7,539,880	1,999,288	2,192,088	1,900,850	21,875,366
Capital expenditure	264,085	225,842	81,780	40,688	49,861	675,895
Segment liabilities	2,579,852	5,659,520	807,713	784,163	560,696	11,301,884

(b) Reconciliation of key segment items reportable to the General Director of the Group with similar items in these consolidated financial statements

Reconciliation of segment revenues:

	Year ended 31 December 2017	Year ended 31 December 2016
Segment revenues	18,858,323	18,355,922
Inter-segment revenue elimination	(663,534)	(551,217)
Unallocated revenues	202,539	107,777
Revenue per consolidated statement of profit or loss and other comprehensive income	18,397,328	17,912,482
Reconciliation of reportable segments' profit before tax:		
	Year ended 31 December 2017	Year ended 31 December 2016
Segment profit/loss before tax	(6,885,171)	(4,485,215)
Discounting of receivables	(1,331)	9,763
Adjustment for receivables' impairment provision	850,191	85,202
Recognition of pension and other long-term employee benefit liabilities	(60,428)	33,797
Adjustment for value of property, plant and equipment	747,130	711,663
Impairment/reversal of impairment of property, plant and equipment	(554,947)	(870,019)
Accrued expenses	(76)	-
Discounting of payables and promissory notes	(220,690)	(56,069)
Losses of Head office (unallocated)	(580,672)	(386,894)
Unallocated items	(41,249)	(58,289)
Profit/loss before tax per statement of profit or loss and other comprehensive income	(6,747,243)	(5,016,061)

Reconciliation of reportable segment total assets:

	Year ended 31 December 2017	Year ended 31 December 2016
Total segment assets	31,028,027	28,481,203
Intersegment balances	(2,214,638)	-
Intersegment financial assets	6,132	-
Adjustment for value of property, plant and equipment	(3,762,769)	(4,382,799)
Impairment of property, plant and equipment	(6,156,395)	(5,728,548)
Recognition of assets related to employee benefit fund	291,454	283,683
Adjustment for deferred tax assets	(518,112)	(207,890)
Adjustment for provision for impairment of receivables	1,398,195	547,993
Discounting of receivables	(33,102)	(31,771)
Assets of Head office (unallocated)	5,073,221	6,810,497
Other adjustments	(40,120)	(40,122)
Total assets per consolidated statement of financial position	25,071,893	25,732,246

Reconciliation of reportable segment total liabilities:

	Year ended 31 December 2017	Year ended 31 December 2016
Total segment liabilities	26,886,685	11,301,884
Intersegment balances	(2,143,602)	-
Adjustment for deferred tax liabilities	(1,075,419)	(1,180,602)
Recognition of pension and other long-term employee benefit obligation	828,763	626,288
Accounts payable discounting	(408,896)	(629,586)
Liabilities of Head office (unallocated)	2,044,996	12,802,560
Unallocated items	(13,237)	(15,397)
Total liabilities per consolidated statement of financial position	26,119,290	22,905,147

(c) *Major customer*

The Group operates in the Russian Federation. The Group does not earn revenue from foreign customers and does not hold non-current assets abroad.

For the years ended 31 December 2017 and 31 December 2016, the Group had one customer PJSC Stavropolenergosbyt with individual turnover over 10% of total Group revenues. The revenue from the customers is reported by the operating segment Stavropol Territory.

Total amounts of revenues from this customer for 2017 were RUB 3,818,686 thousand or 21% of the Group total revenue (2016: RUB 5,650,721 thousand or 31%).

7 Revenue

	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i> <i>(adjusted)</i>
Electricity transmission	16,447,151	16,060,166
Sales of electricity and capacity	1,668,063	1,490,193
Technological connection services	104,303	131,867
Other revenue	177,811	230,256
	18,397,328	17,912,482

Other revenue is comprised of revenue from assembly, repair and maintenance services, transportation services, and other services.

8 Other income/(expenses), net

	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i>
Income in the form of fines and penalties on commercial contracts	462,024	76,189
Insurance coverage, net	23,039	12,096
Gain on property, plant and equipment and inventories received for free	10,558	6,478
Gain /(loss) on disposal of property, plant and equipment	10,238	14,778
Income from identified non-contracted consumption of electricity	7,726	19,828
Accounts payable written-off	6,929	21,099
	520,514	150,468

9 Operating expenses

	<i>Year ended</i> <u>31 December 2017</u>	<i>Year ended</i> <u>31 December 2016</u>
Personnel costs	6,872,607	6,557,003
Depreciation and amortisation	1,515,527	1,529,427
Impairment of property, plant and equipment	905,688	870,019
<i>Material expenses, including:</i>		
Electricity for compensation of technological losses	6,261,119	5,798,330
Electricity for sale	970,980	885,216
Purchased electricity and heat power for own needs	246,348	240,281
Other material costs	852,432	875,598
<i>Production works and services, including:</i>		
Electricity transmission services	2,143,845	1,674,075
Repair and maintenance services	276,016	223,647
Other production works and services	46,343	27,540
Taxes and charges other than income tax	364,432	296,611
Rent	319,769	661,473
Insurance	33,992	33,669
<i>Other third-party services, including:</i>		
Communication services	27,952	39,696
Security services	115,997	119,647
Consulting, legal and audit services	125,546	17,448
Software costs and servicing	11,318	16,031
Transportation services	9	744
Other services	341,650	301,670
Impairment of receivables	1,009,731	1,307,019
Provisions	500,048	131,989
Other expenses	1,592,197	650,402
	<u>24,533,546</u>	<u>22,257,535</u>

10 Personnel costs

	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i>
Wages and salaries	5,149,578	4,928,853
Social security contributions	1,517,471	1,466,765
Expenses related to defined benefit plan	15,987	(16,438)
Expenses related to other long-term employee benefits	8,433	1,024
Other	181,138	176,799
	6,872,607	6,557,003

The amount of contributions to the defined contribution plan was RUB 44,505 thousand for the year ended 31 December 2017 (for the year ended 31 December 2016: RUB 58,390 thousand).

Remuneration to key management personnel is disclosed in Note 31.

11 Finance income and costs

	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i>
Finance income		
Interest income on loans, bank deposits, promissory notes and balances in the bank accounts	103,662	136,584
Interest income on assets related to employee benefit liability	22,679	19,386
Amortization of discount on financial assets	5,796	16,473
Other finance income	21	-
	132,158	172,443
Finance costs		
Interest expense on financial liabilities measured at amortized cost	988,071	873,666
Interest expense on long-term employee benefits liability	47,760	56,386
Interest expenses on finance lease liabilities	-	1,088
Effect of initial discounting of financial assets	7,127	6,710
Amortization of discount on financial liabilities	220,690	56,069
Other finance costs	49	-
	1,263,697	993,919

12 Income tax

	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i>
Current income tax		
Accrual of current tax	(26,769)	-
Adjustment of tax for prior years	14,088	(12,821)
Total	(12,681)	(12,821)
Deferred income tax		
Origination and reversal of temporary differences	546,042	(128,169)
Total	546,042	(128,169)
Income tax expense	533,361	(140,990)

In 2017, the Group recalculated income tax for prior periods of RUB 14,088 thousand including:

- 41,044 - a decrease in income tax due to the court decision with regard to field tax inspection for 2011-2012;
- 37,827 - assessment of tax due to the decision made by Federal tax service inspectorate with regard to field tax inspection for 2013-2014;
- 16,681 - adjustment for income tax for 2014 due to a decrease in revenue under the court decision;
- 5,810 - assessment of income tax due to errors (misstatements) for 2015 found during the current period.

Income tax recognised in other comprehensive income

	Year ended 31 December 2017			Year ended 31 December 2016		
	Before tax	Income tax	Net of tax	Before tax	Income tax	Net of tax
Remeasurements of the defined benefit liability	(134,276)	20,549	(113,727)	11,350	(1,527)	9,823
	(134,276)	20,549	(113,727)	11,350	(1,527)	9,823

The applicable tax rate of PJSC IDGC of Northern Caucasus and its subsidiaries in 2017 and 2016 was the standard income tax rate of 20% for Russian companies. This rate has been used in the calculation of deferred tax assets and liabilities.

Profit (loss) before tax is reconciled to income tax expenses as follows:

	<i>Year ended 31 December 2017</i>	<i>%</i>	<i>Year ended 31 December 2016</i>	<i>%</i>
Profit/(loss) before tax	(6,747,243)	100	(5,016,061)	100
Income tax at applicable tax rate	1,349,449	(20)	1,003,212	(20)
Tax effect of items which are not deductible or taxable for taxation purposes	(310,255)	5	(617,920)	12
Adjustments for prior years	14,088	-	(12,821)	-
Change in unrecognised deferred tax assets	(519,921)	8	(513,461)	10
	533,361	(8)	(140,990)	3

13 Property, plant and equipment

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other PPE	Construction in progress	Total
Cost/Deemed cost						
As at 1 January 2016	1,891,118	9,172,293	9,301,384	4,095,669	4,966,754	29,427,218
Additions	17	1	52	34,834	1,122,895	1,157,799
Transfers	18,151	216,956	207,404	1,334,641	(1,777,152)	-
Disposals	(262)	(917)	(2,475)	(9,247)	(82,798)	(95,699)
As at 31 December 2016	1,909,024	9,388,333	9,506,365	5,455,897	4,229,699	30,489,318
As at 1 January 2017	1,909,024	9,388,333	9,506,365	5,455,897	4,229,699	30,489,318
Reclassification between groups	56,236	397	(37,584)	(19,049)	-	-
Additions	911	-	-	16,914	1,305,571	1,323,396
Transfers	74,825	131,663	559,817	154,924	(921,229)	-
Disposals	(395)	(2,226)	(6,921)	(22,569)	(39,955)	(72,066)
Transfer to non-current assets held for sale	(11,232)	-	(394)	(4,283)	-	(15,909)
As at 31 December 2017	2,029,369	9,518,167	10,021,283	5,581,834	4,574,086	31,724,739

PJSC IDGC of Northern Caucasus
Notes to the consolidated financial statements for the year ended 31 December 2017
(in thousands of Russian roubles, unless otherwise specified)

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other PPE	Construction in progress	Total
Accumulated depreciation and impairment						
As at 1 January 2016	(655,502)	(5,248,739)	(4,158,156)	(2,346,630)	(2,024,261)	(14,433,288)
Entry into property, plant and equipment (transfer of impairment losses)	-	(1,978)	(18,266)	(808)	21,052	-
Depreciation charge	(93,127)	(385,806)	(490,675)	(518,147)	-	(1,487,755)
Disposals	129	818	1,145	8,939	46,257	57,288
Impairment/reversal of impairment	13,946	(362,948)	42,227	(3,569)	(559,675)	(870,019)
As at 31 December 2016	(734,554)	(5,998,653)	(4,623,725)	(2,860,215)	(2,516,627)	(16,733,774)
As at 1 January 2017	(734,554)	(5,998,653)	(4,623,725)	(2,860,215)	(2,516,627)	(16,733,774)
Reclassification between groups	(22,642)	(358)	21,826	1,174	-	-
Entry into property, plant and equipment (transfer of impairment losses)	(1,718)	(8,096)	(26,109)	(14,047)	49,970	-
Depreciation charge	(84,819)	(353,430)	(454,881)	(570,219)	-	(1,463,349)
Disposals	64	2,050	4,467	20,728	14,267	41,576
Transfer to non-current assets held for sale	3,199	-	39	3,880	-	7,118
Impairment/reversal of impairment	(7,443)	(23,701)	(203,503)	(163,768)	(507,273)	(905,688)
As at 31 December 2017	(847,913)	(6,382,188)	(5,281,886)	(3,582,467)	(2,959,663)	(19,054,117)
Net book value						
As at 31 December 2016	1,174,470	3,389,680	4,882,640	2,595,682	1,713,072	13,755,544
As at 31 December 2017	1,181,456	3,135,979	4,739,397	1,999,367	1,614,423	12,670,622

As at 31 December 2017 construction in progress includes prepayments for property, plant and equipment of RUB 133,355 thousand (as at 31 December 2016: RUB 536,133 thousand), and materials for construction of property, plant and equipment of RUB 170,407 thousand (as at 31 December 2016: RUB 92,852 thousand).

Capitalized interest for the year ended 31 December 2017 amounted to RUB 48,739 thousand (for the year ended 31 December 2016: RUB 42,011 thousand); capitalization rate used to calculate borrowing costs to be capitalized during the period was 11.64 % (for the year ended 31 December 2016: 11.87%).

Depreciation was not capitalized in 2017 and 2016.

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

Impairment of property, plant and equipment

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

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

Therefore the value in use for property, plant and equipment as at 31 December 2017 was determined using projected cash flows method. This method considers the future net cash flows expected to be generated by the property, plant and equipment in the process of operating activities and upon disposal, to determine the recoverable amount of the assets.

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

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

Forecasted cash flows were prepared for period No1: 2018-2022 (for cash-generating units branch Dagenergo, JSC Grid Company of Dagestan, branch Ingushenergo); for period No 2: 2018-2027 (for cash-generating units branch Kabbalkenergo, branch Karachayevo-Cherkesskenergo, branch Sevkavkazenergo, branch Stavropolenergo) based on the best estimate of the management in respect of the electricity transmission volumes, operating expenses and capital expenditure, and tariffs approved by regulatory authorities for 2017. For CGU branches Kabbalkenergo, Karachayevo-Cherkesskenergo, Sevkavkazenergo and Stavropolenergo a longer forecast is due to a failure to stabilise the cash flow by 2022. The forecast period for these CGUs is from the test date upon expiration of a five-year period subsequent to the last year of the current approved period of tariff regulation or other number of years when another period is the best estimate for the purposes of the test.

Source electricity transmission tariffs for the forecasted period (after 2018) were taken from business plans, which were based on tariff models prepared taking into account annual average growth of tariffs for electricity transmission services in accordance with the forecast for the social and economic development of the Russian Federation for 2018 and the planning period of 2019-2020. Growth rates of tariffs in 2018-2022 are limited by inflation rate as forecasted by the Ministry for Economic Development.

Forecasted electricity transmission volumes for all cash-generating units have been determined on the basis of annual business plans for 2018-2022.

Projected cash flows were discounted to their present value using the nominal weighted average cost of capital of 10.25%.

Growth rate of the net cash flows in the post-forecast period amounted to 3.3% for period No1 and 2.9% for period No 2.

Following the impairment tests, an impairment loss of RUB 554,947 thousand as at 31 December 2017 was recognised including RUB 159,560 thousand for cash-generating unit branch “Ingushenergo” and RUB 395,387 thousand for cash-generating unit branch “Dagenergo” and JSC Grid Company of Dagestan.

Sensitivity of value in use of property, plant and equipment to changes in the underlying assumptions in calculation is disclosed in the table below:

	<u>Increase, %</u>	<u>Decrease, %</u>
<i>Change in discount rate by 0.25%</i>	-2,66	2,84
Change in required gross proceeds to basis by 3% in every period	25,12	-25,93
<i>Change in growth rate of the net cash flows in the post-forecast period by 0.4%</i>	2,42	-2,18
Change in operating expenses by 5%	-31,49	26,61
Change in (capital) investments by 10%	-8,33	8,33

14 Intangible assets

	Software	Certificates, licenses and patents	Research and developme nt	Other intangible assets	Total intangible assets
Cost					
As at 1 January 2016	107,390	582	-	28,853	136,825
Additions	41,924	1,058	-	231	43,213
Disposals	(11,624)	-	-	(3,077)	(14,701)
As at 31 December 2016	137,690	1,640	-	26,007	165,337
As at 1 January 2017	137,690	1,640	-	26,007	165,337
Additions	50,132	-	13,750	4,258	68,140
Disposals	(35,758)	-	-	(160)	(35,918)
As at 31 December 2017	152,064	1,640	13,750	30,105	197,559
Accumulated amortisation and impairment					
As at 1 January 2016	(32,167)	(197)	-	(4,531)	(36,895)
Amortisation charge	(37,651)	(234)	-	(3,787)	(41,672)
Disposals	11,624	-	-	77	11,701
As at 31 December 2016	(58,194)	(431)	-	(8,241)	(66,866)
As at 1 January 2017	(58,194)	(431)	-	(8,241)	(66,866)
Amortisation charge	(46,956)	(497)	-	(4,725)	(52,178)
Disposals	35,758	-	-	160	35,918
As at 31 December 2017	(69,392)	(928)	-	(12,806)	(83,126)
Net book value					
As at 31 December 2016	79,496	1,209	-	17,766	98,471
As at 31 December 2017	82,672	712	13,750	17,299	114,433

The intangible assets amortisation charge included in operating expenses of the consolidated statement of profit or loss and other comprehensive income amounted to RUB 52,178 thousand (for the year ended 31 December 2016: RUB 41,672 thousand).

Amortisation was not capitalized in 2017 and 2016.

Intangible assets are amortised using the straight-line method.

15 Other non-current assets

	As at 31 December 2017	As at 31 December 2016
Available-for-sale financial assets	145	173
Receivables from PJSC FGC UES	787,319	787,319
	787,464	787,492

Available-for-sale financial assets are represented by the shares in PJSC Stavropolenergosbyt, PJSC Federal Hydrogenerating Company. Fair value of the shares amounted to RUB 145 thousand as at 31 December 2017 (as at 31 December 2016: RUB 173 thousand). The fair value of the investments is based on published market quotations (input level 1) as at the end of each reporting period.

Long-term receivables from PJSC FGC UES related to unsettled payments under technical customer contract with PJSC FGC UES. The receivables for the services provided by the Group and payables (advances received) are presented in the financial statements separately due to disagreement between the Group and PJSC FGC UES. Under the contract, the receivables of RUB 787,319 thousand shall not be offset with the advances received until the works are completed and the certificate is signed by PJSC FGC UES. Due to the fact the agreement has not been reached (at the reporting date either), PJSC FGC UES has not confirmed that the contractual payments are settled, the Group concluded that the receivables and payables shall not be offset. The receivables are classified as long-term within other financial investments. The payables are short-term since the obligations were to be fulfilled by 1 January 2015 and they are short-term until settlement with PJSC FGC UES.

16 Deferred tax assets and liabilities

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

(a) Recognised deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Property, plant and equipment	1,010,420	720,493	(312)	(129)	1,010,108	720,364
Intangible assets	-	-	(124)	-	(124)	-
Available-for-sale financial investments	-	-	(20)	-	(20)	-
Inventories	3,307	9,374	(399)	(6,720)	2,908	2,654
Trade and other receivables and prepayments	2,179,864	1,880,894	-	-	2,179,864	1,880,894
Provisions	123,093	-	-	-	123,093	-
Employee benefit liabilities	-	-	(42,497)	(36,540)	(42,497)	(36,540)
Trade and other payables	-	36,825	(81,862)	(57,400)	(81,862)	(20,575)
Tax losses to be carried-forward	1,255,399	821,728	-	-	1,255,399	821,728
Other	8,167	-	-	-	8,167	-
Tax assets/(liabilities)	4,580,250	3,469,314	(125,214)	(100,789)	4,455,036	3,368,525
Set off of tax	(125,214)	(100,789)	125,214	100,789	-	-
Unrecognized deferred tax assets	(1,033,382)	(513,461)	-	-	(1,033,382)	(513,461)
Net tax assets/(liabilities)	3,421,654	2,855,064	-	-	3,421,654	2,855,064

(b) *Unrecognized deferred tax assets*

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised with respect to tax losses and temporary differences because it is not probable that future taxable profit will be available, against which the loss-making Group's companies can utilize the relevant temporary differences and tax losses.

Deferred tax assets have not been recognised in respect of the following items:

	31 December 2017	31 December 2016
Deductible temporary differences	(342,827)	111,698
Tax losses	862,748	401,763
Total	519,921	513,461
Unrecognised deferred tax assets at the applicable rate	519,921	513,461

(c) *Movement in temporary differences during the year*

	1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2017
Property, plant and equipment	720,364	289,744	-	1,010,108
Intangible assets	-	(124)	-	(124)
Available-for-sale financial investments	-	(20)	-	(20)
Inventories	2,654	254	-	2,908
Trade and other receivables and prepayments	1,880,894	298,970	-	2,179,864
Provisions	-	123,093	-	123,093
Employee benefit liabilities	(36,540)	(26,506)	20,549	(42,497)
Trade and other payables	(20,575)	(61,287)	-	(81,862)
Tax losses to be carried-forward	821,728	433,671	-	1,255,399
Other	-	8,168	-	8,167
Unrecognized deferred tax assets	(513,461)	(519,921)	-	(1,033,382)
	2,855,064	546,042	20,549	3,421,654

PJSC IDGC of Northern Caucasus
Notes to the consolidated financial statements for the year ended 31 December 2017
(in thousands of Russian roubles, unless otherwise specified)

	1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2016
Property, plant and equipment	785,646	(65,282)	-	720,364
Inventories	(2,928)	5,582	-	2,654
Trade and other receivables and prepayments	2,029,782	(148,888)	-	1,880,894
Finance lease liabilities	1,582	(1,582)	-	-
Provisions	19,299	(19,299)	-	-
Employee benefit liabilities	(30,800)	(4,213)	(1,527)	(36,540)
Trade and other payables	(71,350)	50,775	-	(20,575)
Tax losses to be carried-forward	253,529	568,199	-	821,728
Unrecognized deferred tax assets	-	(513,461)	-	(513,461)
	2,984,760	(128,169)	(1,527)	2,855,064

17 Inventories

	As at 31 December 2017	As at 31 December 2016
Raw materials and supplies	645,686	574,767
Provision for impairment of raw materials and supplies	(16,862)	(11,014)
Other inventories	158	17,466
	628,982	581,219

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

During the year ended 31 December 2017, RUB 852,432 thousand were recognised as expenses (during the year ended 31 December 2016: RUB 875,598 thousand) within operating expenses as *Other material expenses*.

18 Trade and other receivables

	As at 31 December 2017	As at 31 December 2016
Trade and other receivables current and non-current		
Trade receivables	643,484	76,657
Provision for impairment of trade receivables	-	(448)
Other receivables	72,537	3,873
Total financial assets	716,021	80,082
Advances given	847	-
	716,868	80,082
Current trade and other receivables		
Trade receivables	13,999,030	13,137,184
Provision for impairment of trade receivables	(10,510,293)	(9,973,749)
Other receivables	2,223,264	954,145
Provision for impairment of other receivables	(1,045,387)	(615,759)
Loans granted	364,513	419,789
Provision for short-term loans issued	(11,691)	-
Total financial assets	5,019,436	3,921,610
Advances given	32,954	51,646
Provision for impairment of advances given	(8,845)	(6,383)
VAT recoverable	126,908	275,575
Prepaid taxes, other than income tax and VAT	19,145	85,829
	5,189,598	4,328,277

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 28.

Balances with related parties are disclosed in Note 31.

19 Cash and cash equivalents

	As at 31 December 2017	As at 31 December 2016
Cash in banks and in hand	1,160,972	1,363,184
Cash equivalents	-	1,570,000
	1,160,972	2,933,184

	Rating	Rating agency	As at 31 December 2017	As at 31 December 2016
PAO Sberbank*	Ba2	Moody's	707,682	996,542
JSC Gazprombank *	AAA	Standard&Poor's	391,555	360,510
Central branch of JSC AB ROSSIYA	AA-	Standard&Poor's	60,421	5,868
Other banks	-	-	1,055	44
Petty cash	-	-	259	220
			1,160,972	1,363,184

*State related banks

Cash equivalents consist of short-term bank deposits:

	Interest rate	Rating	Rating agency	As at 31 December 2017	As at 31 December 2016
JSC Gazprombank *	8%	AAA	Standard&Poor's	-	1,570,000
				-	1,570,000

*State related banks

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

20 Non-current assets held for sale

The movement of non-current assets held for sale is as follows:

	2017	2016
Balance at 1 January	3,411	8,583
Additions	6,828	-
Disposals	(2,896)	(5,172)
Balance at 31 December	7,343	3,411

21 Share capital

	Ordinary shares	
	31 December 2017	31 December 2016
Nominal value per share (RUB)	1	1
On issue at 1 January	154,562,275	154,562,275
In issue at end of year, fully paid	389,217,295	154,562,275

(a) Dividends

Distribution and other use of year-end profit is based on the annual official financial statements of the Group's parent PJSC IDGC of Northern Caucasus prepared in accordance with the Russian Accounting Standards. Net profit is subject to distribution under the Russian legislation.

The annual General Shareholders Meeting of PJSC IDGC of Northern Caucasus held on 15 June 2017 decided not to declare dividends on ordinary shares of the Company for 2016.

During the year ended 31 December 2017, the Group paid dividends for the previous periods of RUB 10 thousand and dividend tax of RUB 1,000 and wrote off unclaimed dividends payable of RUB 683 thousand. The Group has no outstanding dividends as at 31 December 2017.

The annual General Shareholders Meeting of PJSC IDGC of Northern Caucasus held on 20 June 2016 decided not to declare dividends on ordinary shares of the Company for 2015.

During the year ended 31 December 2016, the Group paid dividends for the previous periods of RUB 569 thousand and dividend tax of RUB 2,000 and wrote off unclaimed dividends payable of RUB 2,459 thousand. The Group had outstanding dividends of RUB 695 thousand as at 31 December 2016.

(b) Additional issue of shares

On 23 August 2016, an Extraordinary General Meeting of Shareholders of the Company (Minutes of 25 August 2016 No 17) decided to increase the share capital of PJSC IDGC of Northern Caucasus through the issuance of additional 3,258,695,653 ordinary registered uncertified shares with a par value of RUB 1 each.

The meeting of the Board of Directors of the Company held on 21 December 2016 (Minutes of 22 December 2016 No 273) made a decision to approve the offering price of an additional ordinary share of PJSC IDGC of Northern Caucasus of RUB 17.45.

(B) Additional paid in capital

As at 31 December 2017 and 2016, the additional paid in capital comprises share premium of RUB 4,887,179 thousand and income from borrowings received at rates lower than the market rates from the Group's founder of RUB 165,323 thousand.

22 Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2017 was based on the earnings attributable to ordinary shareholders for 2017 in the amount of the loss of RUB 6,213,882 thousand (2016: loss of RUB 5,157,051 thousand) and a weighted average number of ordinary shares outstanding of 193 million in 2017 (for 2016: 155 million).

The Group has no dilutive financial instruments.

<i>In millions of shares</i>	2017	2016
Ordinary shares at 1 January	155	155
<i>Effect of treasury shares</i>	-	-
<i>Effect of issued shares</i>	235	-
Weighted average number of shares for the year ended 31 December	193	155
	Year ended 31 December 2017	Year ended 31 December 2016
Weighted average number of ordinary shares outstanding, for the year ended 31 December (millions of shares)	193	155
Earnings for the year attributable to holders of ordinary shares	(6,213,882)	(5,157,051)
Earnings per ordinary share - basic and diluted (in Russian Roubles)	(32,13)	(33,37)

23 Loans and borrowings

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Non-current liabilities		
Unsecured loans and borrowings	9,276,843	7,305,943
Unsecured bonds	-	1,350,000
Less: Current portion of long-term loans and borrowings	(1,974,648)	(2,850,000)
	7,302,195	5,805,943
Current liabilities		
Unsecured loans and borrowings	38,892	87,722
Promissory notes	-	1,962,764
Current portion of long-term loans and borrowings	1,974,648	2,850,000
	2,013,540	4,900,486
including:		
Interest payable on loans and borrowings	38,892	57,722
	38,892	57,722

	Currency	Year of maturity	Effective interest rate			Carrying value	
			31 December 2017	31 December 2016	31 December 2017	31 December 2016	
Unsecured loans and borrowings							
PJSC "ROSSETI"***	Russian rouble	2017	-	-	-	30,000	
PJSC Sberbank	Russian rouble	2018-2019	8.20-12.00	8.20-12.41	1,902,992	5,006,541	
JSC Gazprombank *	Russian rouble	2018-2020	10.99-11.15	10.50-13.00	3,846,250	2,324,560	
Central branch of JSC AB ROSSIYA	Russian rouble	2020	10.50-10.75	-	3,066,496	-	
JSC Russian Regional Development Bank	Russian rouble	2019	10.00	-	499,997	-	
Promissory notes					9,315,735	7,361,101	
PJSC "ROSSETI"***	Russian rouble	2017	-	-	-	1,541,035	
PJSC "FGC UES"***	Russian rouble	2017	-	-	-	423,041	
					-	1,964,076	
Unsecured bonds							
JSC Tyumenenergo**	Russian rouble	2017	-	13.00	-	1,381,252	
					-	1,381,252	
					9,315,735	10,706,429	
Total liabilities							

*Loans and borrowings from the state - related entities.

** Loans and promissory notes from the parent and its subsidiary.

As at 31 December 2017 and 31 December 2016, the balances of loans and borrowings are denominated in roubles. The Group has not entered into any hedging agreements in respect of its interest rate exposure. The Group is not exposed to the interest rate risk.

24 Changes in liabilities arising from financing activities

	Principal amount of financial liabilities payable net of finance lease and dividends payable			Interest on financial liabilities payable net of finance lease and dividends payable		Total
	Total	Non-current portion	Current portion	finance lease and dividends payable	Dividends payable	
At 1 January 2017	10,648,707	5,805,943	4,842,764	57,722	695	10,707,124
Cash flows used in financing activities, net	(1,371,864)	3,470,900	(4,842,764)	x	(11)	(1,371,875)
Cash flows used in interest paid (operating activities, for reference)	x	x	x	(1,055,640)	x	(1,055,640)
Cash inflows from finance leases	x	x	x	-	x	-
Change in the fair value, net	x	x	x	x	x	-
Discounting, net	-	-	-	x	x	-
Interest and dividends payable accrued	x	x	x	988,071		988,071
Interest capitalized	x	x	x	48,739	x	48,739
Transfer from non-current portion to current portion	x	(1,974,648)	1,974,648	x	x	-
Other changes, net	-	-	-	-	(684)	(684)
At 31 December 2017	9,276,843	7,302,195	1,974,648	38,892	-	9,315,735

25 Employee Benefits

The Group has a defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of several unfunded plans providing for lump-sum payments upon retirement, financial support for current pensioners, death benefits and anniversary benefits.

Amounts of defined benefit obligations recognised in the consolidated statement of financial position are presented below:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Net value of post-employment benefit plan obligations	682,599	538,459
Net value of other long-term employee benefit plan obligation	146,164	87,829
Total obligations, net	<u>828,763</u>	<u>626,288</u>

Changes in the value of assets related to employee benefits obligations:

	<u>Year ended 2017</u>	<u>Year ended 31 December 2016</u>
Value of assets at 1 January	283,683	273,124
Return on plan assets	22,679	19,386
Employer contributions	-	-
Other movements in the accounts	5,001	124
Payment of benefits	(19,909)	(8,951)
Value of assets at 31 December	<u>291,454</u>	<u>283,683</u>

Assets related to pension plans and defined benefit plans are administrated by non-state pension funds NPF Electroenergetiki and Professionalny.

These assets are not the defined benefit plans' assets because under the terms of agreements between the Group and the funds NPF Electroenergetiki and Professionalny the Group has the right to use the contributions paid under defined benefit plans to fund its defined contribution pension plans or transfer to another fund on the Group's own initiative.

Movements in the present value of defined benefit liabilities:

	Year ended 31 December 2017		Year ended 31 December 2016	
	Post employment benefits	Other long- term employee benefits	Post employment benefits	Other long- term employee benefits
Defined benefit plan obligation as at 1 January	538,459	87,829	569,149	91,727
Current service cost	15,987	8,433	19,214	9,125
Past service cost and curtailments	-	-	(35,652)	(8,101)
Interest expense on liabilities	41,704	6,056	49,127	7,259
Remeasurement effect from:				
- loss/(gain) from change in demographic actuarial assumptions	9,004	4,447	(8,823)	(725)
- (gain)/loss from change in financial actuarial assumptions	84,620	22,837	(23,498)	(2,114)
- (gain)/loss from experience adjustment	40,652	33,149	20,971	5,970
Contributions to the plan	(47,827)	(16,587)	(52,029)	(15,312)
Defined benefit plan obligation as at 31 December	682,599	146,164	538,459	87,829

Expenses recognised in profit or loss for the period:

	Year ended 31 December 2017	Year ended 31 December 2016
Employee service cost	24,420	(15,414)
Remeasurement of other long-term employee benefit obligation	60,433	3,131
Interest expense	47,760	56,386
Total expenses recognised in profit or loss	132,613	44,103

(Gains)/losses recognised in other comprehensive income for the period:

	Year ended 31 December 2017	Year ended 31 December 2016
Loss/(gain) from change in demographic actuarial assumptions	9,004	(8,823)
(Gain)/loss from change in financial actuarial assumptions	84,620	(23,498)
(Gain)/loss from experience adjustment	40,652	20,971
Total (gain)/loss recognised in other comprehensive income	134,276	(11,350)

Movements in provision for remeasurement of employee benefit obligations in other comprehensive income during the period:

	Year ended 31 December 2017	Year ended 31 December 2016
Remeasurements at 1 January	96,885	108,235
Movement of remeasurements	134,276	(11,350)
Remeasurements at 31 December	231,161	96,885

The key actuarial assumptions:

	31 December 2017	31 December 2016
Financial assumptions		
Discount rate	7.50%	8.50%
Future salary increase	4.00%	4.70%
Inflation rate	4.50%	4.70%
Demographic assumptions		
Expected age of retirement		
• Men	60	60
• Women	55	55
Average level of staff movement	7.7%	7.5%

A sensitivity of total employee benefits obligations to changes in the key actuarial assumptions is as follows:

	Changes in the assumption	Impact on obligation
Discount rate	Increase by 0.5%	-5.3%
Future salary growth	Increase by 0.5%	3.7%
Future growth of benefits (inflation)	Increase by 0.5%	1.6%
Level of staff movement	Increase by 10%	-1.5%
Mortality level	Increase by 10%	-1.6%
	31 December 2017	31 December 2016
Employee benefit liability	(828,763)	(626,288)
Value of assets	291,454	283,683
Net value	(537,309)	(342,605)

Expected payments under the long-term employee benefit plans in 2017 +1 year are RUB 37,587 thousand including:

- RUB 22,059 thousand under the defined benefit plan including non-state pension schemes;
- RUB 15,528 thousand under the other long-term employee benefit schemes.

26 Trade and other payables

	<u>31 December 2017</u>	<u>31 December 2016</u>
Non-current payables		
Trade payables	3,613,539	447,012
Other payables	1,014,319	-
Total financial liabilities	<u>4,627,858</u>	<u>447,012</u>
Advances from customers	16,331	11,019
	<u>4,644,189</u>	<u>458,031</u>
Current payables		
Trade payables	8,464,615	8,140,411
Other payables and accrued expenses	1,225,023	1,395,898
Payables to employees	691,461	592,414
Dividends payable	-	695
Total financial liabilities	<u>10,381,099</u>	<u>10,129,418</u>
Advances from customers	164,523	199,526
	<u>10,545,622</u>	<u>10,328,944</u>
Taxes payable		
VAT	315,314	381,463
Property tax	63,425	53,408
Social security contributions	113,238	116,825
Other taxes payables	54,947	51,839
	<u>546,924</u>	<u>603,535</u>
	<u>15,736,735</u>	<u>11,390,510</u>

The Group's exposure to liquidity risk related to payables is disclosed in Note 28.

Long-term advances from customers include advances for technological connections services of RUB 16,331 thousand as at 31 December 2017 (as at 31 December 2016: RUB 11,019 thousand).

27 Provisions

	<u>For the year ended 31 December 2017</u>	<u>For the year ended 31 December 2016</u>
Balance at 1 January	(181,920)	(113,063)
Increase for the year	(749,763)	(214,511)
Decrease due to reversal of provisions	249,715	82,522
Provisions used	443,911	63,132
Balance at 31 December	<u>(238,057)</u>	<u>(181,920)</u>

Provisions relate mainly to legal proceedings and claims against the Group in the day-to-day terms of

business.

28 Financial risk and capital management

In the course of its ordinary business activities, the Group is exposed to various financial risks including: market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk.

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 in the relevant sections of these consolidated financial statements.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

(a) Credit risk

Credit risk is the risk of financial losses to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group monitors existing debt on a regular basis and takes steps to collect the debt and to mitigate losses.

To manage credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is stipulated by a contract and depends on the amount of capacity to be connected.

The Group does not require collateral in respect of receivables.

The Group establishes a provision for impairment that represents its estimate of anticipated losses with respect to receivables that relate to individually significant exposures.

Exposure to credit risk

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

	Carrying amount	
	31 December 2017	31 December 2016
Loans granted	352,822	419,789
Trade and other receivables (less provision for impairment)	5,382,635	3,581,902
Cash and cash equivalents	1,160,972	2,933,184
	6,896,429	6,934,875

The maximum exposure to credit risk for trade receivables (net of other receivables) at the reporting date by groups of customers was as follows:

	Gross	Impairment loss	Gross	Impairment loss
	31 December 2017	31 December 2017	31 December 2016	31 December 2016
Buyers of electricity sales services	1,446,335	(1,055,645)	737,132	(342,816)
Buyers of electricity transmission services	10,065,100	(6,346,721)	9,388,028	(6,596,985)
Other buyers	3,131,079	(3,108,927)	3,088,681	(3,034,396)
	14,642,514	(10,510,293)	13,213,841	(9,974,197)

The Group's ten most significant debtors account for RUB 3,103,322 thousand of the trade receivables carrying amount as at 31 December 2017 (as at 31 December 2016: RUB 2,444,613 thousand).

Impairment losses of trade and other receivables

The aging of trade and other receivables is provided below:

	Gross	Impairment loss	Gross	Impairment loss
	31 December 2017	31 December 2017	31 December 2016	31 December 2016
Not past due	3,764,442	(10,590)	1,530,820	(24,992)
Past due less than 3 months	1,075,911	(297,040)	1,316,703	(104,177)
Past due more than 3 months and less than 6 months	601,149	(402,852)	1,050,283	(569,220)
Past due more than 6 months and less than 1 year	1,306,985	(970,016)	1,227,199	(938,340)
Past due more than 1 year	10,189,828	(9,875,182)	9,046,853	(8,953,227)
	16,938,315	(11,555,680)	14,171,858	(10,589,956)

The Group believes that not impaired past due accounts receivable are recoverable with high level of probability at the reporting date.

The movement in the provision for impairment of trade and other receivables was as follows:

2017

2016

Balance at 1 January	(10,589,956)	(10,432,860)
Increase in provision for the period	(3,039,285)	(1,699,258)
Reversal of provision for the period	2,043,707	392,065
Amounts of trade and other receivables written off using the provision accrued earlier	29,854	1,150,097
Balance at 31 December	(11,555,680)	(10,589,956)

Offset and similar agreements

The Group can enter into purchase and sale agreements with the same contractors in its ordinary course of business. Correspondent amounts of receivables and payables do not always meet the criteria for offsetting in the statement of financial position. This is due to the fact that the Group may not have a legally enforceable right to offset the recognised amount since the offset can be legally enforceable if certain events take place in the future. Namely, in accordance with the Russian civil regulations, a liability can be offset with an asset which term has come, or not indicated or not determined by demand date.

The following table presents carrying amounts of recognized financial instruments subject to the abovementioned agreements:

	31 December 2017		31 December 2016	
	Trade and other		Trade and other	
	receivables	payables	receivables	payables
Gross	5,490,213	3,827,636	8,808,064	8,840,355
Provision for doubtful receivables	(20,266)	-	(952,966)	-
Amounts offset under IAS 32	3,706,089	3,706,089	6,201,720	6,201,720
Net amounts recognised in statement of financial position	1,763,858	121,547	1,653,378	2,638,635
Amounts related to recognised financial instruments with regard to which some or all offset criteria are not met	50,256	50,256	406,100	406,100
Total, net	1,713,602	71,291	1,247,278	2,232,535

(b) *Liquidity risk*

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

Management of liquidity risk involves maintaining sufficient cash and the availability of financial resources by securing credit lines. The Group adheres to a balanced model of financing working capital by using both short-term and long-term sources. Basically temporarily free funds invested in the short-term financial instruments such as bank deposits.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable

losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The amount of free limit on open but unused credit lines of the Group was RUB 2,322,805 thousand as at 31 December 2017 (31 December 2016: RUB 1,193,705 thousand). The Group has opportunity to attract additional financing within the corresponding limits including for the purpose of execution of the short-term obligations.

The following are the contractual maturities of financial liabilities, including estimated interest payments and without the impact of netting. With respect to the cash flows included in the maturity analysis, it is not expected that they can arise much earlier in time or in significantly different amounts:

31 December 2017	Carrying amount	Contractual cash flows	less than 12 months	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
Non-derivative financial liabilities								
Loans and borrowings	9,315,735	11,678,530	3,431,326	3,501,945	4,745,259	-	-	-
Trade and other payables	14,221,555	14,630,451	9,593,697	-	-	1,922,429	2,556,996	557,329
	23,537,290	26,308,981	13,025,023	3,501,945	4,745,259	1,922,429	2,556,996	557,329
31 December 2016	Carrying amount	Contractual cash flows	less than 12 months	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
Non-derivative financial liabilities								
Loans and borrowings	7,393,665	10,719,773	5,707,956	2,414,095	2,597,722	-	-	-
Bonds issued	1,350,000	2,106,333	175,500	175,500	175,500	175,981	1,403,852	-
Promissory notes	1,962,764	1,962,764	1,962,764	-	-	-	-	-
Trade and other payables	9,800,130	10,418,697	9,335,507	2,890	1,510	-	2,192	1,076,598
	20,506,559	25,207,567	17,181,727	2,592,485	2,774,732	175,981	1,406,044	1,076,598

(c) **Market risk**

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

Currency risk

The majority of the Group's revenues and expenditures, monetary assets and liabilities are denominated in RUB, and as such financial results are insignificantly impacted by changes in exchange rates.

Interest rate risk

Changes in interest rates primarily influence loans and borrowings since they change their fair values (loans and borrowings with fixed rates) or future cash flows (loans and borrowings with variable rate). The Group management does not have a formal policy for determining how much of the group's exposure should be to fixed or variable rates. However, when making a decision about new loans and borrowings, the Group management gives priority to loans and borrowings with fixed rates and as a result, the Group is exposed to interest rate risk to a limited extent..

As a rule, loan agreements entered into by the Group do not contain any charges for the early repayment of loans on the borrower's initiative which facilitates additional flexibility for the Group in relation to optimizing interest rates in the current economic environment.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss for the period. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(d) **Fair values and carrying amounts**

The fair values of financial assets and liabilities together with the carrying amounts are as follows:

	Note	31 December 2017		Fair value hierarchy level		
		Carrying amount	Fair Value	1	2	3
Loans given and receivables	18	5,735,456	5,735,456	-	-	5,735,456
Available-for-sale financial assets	15	145	145	145	-	-
Cash and cash equivalents	19	1,160,972	1,160,972	-	-	1,160,972
Short-term and long-term loans and borrowings	23	(9,315,735)	(9,315,735)	-	-	(9,315,735)
Trade and other payables	26	(14,221,555)	(14,221,555)	-	-	(14,221,555)
Total		(16,640,717)	(16,640,717)	145	-	(16,640,862)

	Note	31 December 2016		Fair value hierarchy level		
		Carrying amount	Fair Value	1	2	3
Loans given and receivables	18	4,001,693	4,001,693	-	-	4,001,693
Available-for-sale financial assets	15	174	174	174	-	-
Cash and cash equivalents	19	2,933,184	2,933,184	-	-	2,933,184
Short-term and long-term loans and borrowings	23	(10,706,429)	(10,706,429)	-	-	(10,706,429)
Trade and other payables	26	(9,789,028)	(9,789,028)	-	-	(9,789,028)
Total		(13,560,406)	(13,560,406)	174	-	(13,560,580)

The Group Management believes that the fair value of financial assets and financial liabilities is approximately equal to their book value.

There were no transfers between the fair value hierarchy levels during 2017.

(e) *Capital management*

The main goal of capital management for the Group is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group monitors the capital structure (debt and own) including the debt-to-capital ratio determined in accordance with the Russian Accounting Principles. In accordance with the credit policy, the Group companies must maintain the debt-to-capital ratio less than 1.

The Company and its subsidiaries must comply with the capital requirements under which net assets in accordance with the Russian Accounting Principles must exceed its share capital.

As at 31 December 2017, a subsidiary JSC Grid Company of Dagestan does not comply with all of the above requirements. Currently, the Group management takes measures to ensure compliance with the laws and regulations in the nearest future. The management believes this non-compliance does not significantly impact the Group's consolidated financial statements.

29 Operating leases

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.

Lease agreements were entered into in prior periods and consist of land plots on which power lines, equipment for electricity transmission and other assets are located. The land leases typically run for an initial period of 1 to 49 years with an option to renew the lease after that date. The Group is not entitled to purchase the leased asset upon expiration of the operating lease arrangement. 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 since all the substantial risks and rewards of the land plots are with the landlord, the leases are considered to be operating leases.

Non-cancellable operating lease rentals are payable as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Less than 1 year	257,623	500,313
Between 1 and 5 years	320,909	358,918
More than 5 years	584,867	397,150
	<u>1,163,399</u>	<u>1,256,381</u>

Operating lease expenses for the year ended 31 December 2017 included in the operating expenses amount to RUB 319,769 thousand (for the year ended 31 December 2016: RUB 661,473 thousand).

30 Capital commitments

As at 31 December 2017, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment items for RUB 1,297,058 thousand VAT inclusive (as at 31 December 2016: RUB 1,201,697 thousand VAT inclusive).

31 Contingencies

(a) Insurance

The Group has unified requirements in respect of the volume of insurance coverage, reliability of insurance companies and about procedures of insurance protection organization. The Group maintains insurance of assets, civil liability and other insurance risks. The main business areas of the Group have insurance coverage including coverage in case of damage or loss of assets. However, there are risks of negative impact on the operations and the financial position of the Group in the case of damage caused to third parties, and also as a result of damage or loss of assets, insurance protection of which is non-existent or not fully implemented.

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

(c) Litigations

The Group is a party to certain legal proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business. In the management's opinion, there are no actual litigations or other claims which could materially influence the performance or financial position of the Group and which wouldn't be recognized or disclosed in these consolidated financial statements.

(d) **Environmental matters**

The Group has operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. 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. In the current enforcement climate under existing legislation, management believes that there are no significant obligations which could have an adverse effect on the Group's financial position, its performance or its cash flows.

32 Related party transactions

(a) **Control relationships**

Related parties include shareholders, affiliates and entities under common ownership and control of the Group, members of the Board of Directors and key management personnel of the Group. The Group's parent as at 31 December 2017 and 31 December 2016 was PJSC ROSSETI. The party with the ultimate control is the Federal Agency for Property Management which held the majority of the voting rights of PJSC ROSSETI.

(b) **Transactions with the parent, its subsidiaries and associates**

Transactions with the Parent, its subsidiaries and associates include transactions with PJSC ROSSETI, its subsidiaries and associates:

	Transaction amount for the year ended 31 December		Carrying amount	
	2017	2016	2017	2016
Revenue, net other income, finance income				
Parent				
Other revenue	164	-	-	-
Entities under common control of the parent				
Electricity transmission	6,702,827	6,500,495	2,086,386	793,461
Electricity sales	874	-	-	-
Other revenue	144,388	172,157	20,453	123,378
Other income, net	129,514	10	1,063,163	199,666
Interest income on loans, bank deposits, promissory notes and balances in the bank accounts	26,313	30,558	102,781	95,021
	7,004,080	6,703,220	3,272,783	1,211,526

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Notes to the consolidated financial statements for the year ended 31 December 2017
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	Transaction amount for the year ended 31 December		Carrying amount	
	2017	2016	2017	2016
Operating expenses, finance costs				
Parent				
Other production works and services	94,252	17,727	-	-
Other expenses	1,477	76,525	15,979	10,497
Interest expense on financial liabilities measured at amortized cost	3,768	-	-	-
Entities under common control of the parent				
Electricity for sale	3,506	998	171	49
Electricity transmission services	2,026,398	1,586,046	4,193,985	3,199,931
Electricity for compensation of losses	4,235,558	3,538,482	5,803,852	3,664,483
Repair and maintenance services	-	-	-	-
Purchased electricity for own needs	113,742	110,770	-	-
Rent	92	92	9	9
Software costs and servicing	5,456	7,111	19,440	12,141
Provisions	460,414	(25,462)	119,454	305
Impairment of accounts receivable	(329,275)	282,550		
Other expenses	900,812	139,545	1,255,107	585,679
Interest expense on financial liabilities measured at amortized cost	145,679	118,759	-	-
	7,661,879	5,853,143	11,407,997	7,473,094

	Carrying amount	
	2017	2016
Parent		
Loans and borrowings	-	(1,571,035)
Entities under common control of the parent		
Loans granted	352,822	419,789
Advances given	128	181
Loans and borrowings	-	(1,804,293)
Advances received	(1)	(1)
	352,949	(2,955,359)

Dividends attributable to the parent for the year ended 31 December 2016 amounted to RUB 695 thousand. There are no dividends payable to the parent as at 31 December 2017.

(c) Transactions with key management personnel

The key management personnel for the purpose of preparation of these consolidated financial statements are members of the Board of Directors, members of the Management Board, General Director and its deputies and top managers of the Group.

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

The amounts of key management personnel remuneration disclosed in the table are recognized as an expense related to key management personnel during the reporting period and included in personnel costs.

	Year ended 31 December 2017	Year ended 31 December 2016
Short-term remuneration to personnel, including social security contributions	93,410	70,633
	93,410	70,633

As at 31 December 2017 the present value of defined benefit plans obligations recognised in the consolidated statement of financial position included obligations in respect of key management personnel in the amount of RUB 6,010 thousand (31 December 2016: RUB 999 thousand).

(d) Transactions with government-related entities

In the course of its operating activities the Group is engaged in many transactions with government-related entities. The transactions are carried out in accordance with regulated tariffs or based on market prices.

Revenues from government-related entities for the year ended 31 December 2017 constitute 15% of total Group revenues (2016: 14%) including 15% of electricity transmission revenues (2016: 13%).

Electricity transmission costs (including compensation of technological losses) for government-related entities for the year ended 31 December 2017 constitute 1% (2016: 1%) of total electricity transmission costs.

Interest accrued on loans and borrowings from state-related banks for the year ended 31 December 2017 amounted to 77% (2016: 87%) of total interest accrued.

As at 31 December 2017, the cash and cash equivalents balances placed with state-related banks amounted to RUB 1,100,292 thousand (as at 31 December 2016: RUB 2,921,087 thousand).

Loans and borrowings received from state-related banks are disclosed in Note 23.

33 Events after the reporting date

On 13 February 2018, the Group entered into a new loan agreement with Bank JSC Russian Regional Development Bank with a RUB 1 billion limit.

On 16 February 2018, the Group entered into a new loan agreement with Bank AB ROSSIYA with a RUB 1 billion limit.

At the expense of the loan limits under the new loan agreements, the Group refinanced the outstanding loan of RUB 774,648 thousand under loan agreement with JSC Gazprombank of 17 May 2011 No 2411-066-KL.

34 Adjusted comparative information

The comparative information has been adjusted due to the changes in the accounting policies regarding revenue recognition. The effect of the adjustments made on these financial statements is presented below.

Note 7. Revenue

2016	Before adjustment	Effect	After adjustment
Electricity transmission	16,882,864	(822,698)	16,060,166
Sales of electricity and capacity	667,495	822,698	1,490,193
Total revenue	17,912,482	-	17,912,482

The list of state-related entities beyond the Group has also been reviewed.

Note 31. Related party transactions

Revenues from state-controlled entities within the total revenue comprise:

2016	Before adjustment	Effect	After adjustment
Share of total revenue from state-controlled entities	7%	7%	14%
Share of revenue from electricity transmission from state-controlled entities	6%	7%	13%

The structure of the statements of financial position and of cash flows as well as of some notes has been altered due to the changed presentation format of the financial statements for 2017.