

**PJSC «IDGC of Centre»**

**Consolidated Interim Condensed Financial Statements prepared in  
accordance with IAS 34 “Interim Financial Reporting” as at and for the  
three and six months ended 30 June 2018  
(unaudited)**

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## **Report on Review of Interim Financial Information**

To the Shareholders and Board of Directors of  
Public Joint-Stock Company "Interregional Distribution  
Grid Company of Centre"

### **Introduction**

We have reviewed the accompanying consolidated interim condensed financial statements of Public Joint-Stock Company "Interregional Distribution Grid Company of Centre" and its subsidiaries, which comprise the consolidated interim condensed statement of financial position as at 30 June 2018, the consolidated interim condensed statement of profit or loss and other comprehensive income for the three and six months then ended, consolidated interim condensed statement of cash flows, consolidated interim condensed statement of changes in equity for the six months then ended, and selected explanatory notes (interim financial information). Management of Public Joint-Stock Company "Interregional Distribution Grid Company of Centre" is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.



Совершенство бизнеса,  
улучшаем мир

### **Other matters**

The consolidated financial statements of the Public Joint-Stock Company "Interregional Distribution Grid Company of Centre" and its subsidiaries for 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 22 March 2018.

The consolidated interim condensed financial statements of the Public Joint-Stock Company "Interregional Distribution Grid Company of Centre" and its subsidiaries as at 30 June 2017 and for the three and six months then ended were not reviewed.

T.L. Okolotina  
Partner  
Ernst & Young LLC

22 August 2018

### **Details of the entity**

Name: Public Joint-Stock Company "Interregional Distribution Grid Company of Centre"  
Record made in the State Register of Legal Entities on 17 December 2004, State Registration Number 046900099498.  
Address: Russia 127018, Moscow, 2-Yamskaya street, 4.

### **Details of the auditor**

Name: Ernst & Young LLC  
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.  
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.  
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 1160305064

**PJSC "IDCG of Centre"**  
**Consolidated Interim Condensed Statement of profit or loss and other comprehensive income**  
**for three and six months ended 30 June 2018 (unaudited)**  
*In thousands of Russian rubles, unless otherwise stated*

	Notes	For the three months ended		For the six months ended	
		30 June	30 June	30 June	30 June
		2018	2017	2018	2017
Revenue	7	21,311,175	20,927,760	46,755,582	45,225,525
Operating expenses	9	(20,290,473)	(19,416,557)	(42,493,796)	(39,665,612)
Other income, net	8	262,898	282,179	504,754	427,485
<b>Result from operating activities</b>		<b>1,283,600</b>	<b>1,793,382</b>	<b>4,766,540</b>	<b>5,987,398</b>
Finance income	10	69,173	163,150	102,990	330,398
Finance costs	10	(843,337)	(1,097,959)	(1,770,683)	(2,215,418)
<b>Total financial (costs)</b>		<b>(774,164)</b>	<b>(934,809)</b>	<b>(1,667,693)</b>	<b>(1,885,020)</b>
<b>Profit before income tax</b>		<b>509,436</b>	<b>858,573</b>	<b>3,098,847</b>	<b>4,102,378</b>
Income tax expense		(265,470)	(583,657)	(935,695)	(1,374,277)
<b>Profit for the period</b>		<b>243,966</b>	<b>274,916</b>	<b>2,163,152</b>	<b>2,728,101</b>
<b>Other comprehensive income</b>					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Net change in fair value of available-for-sale financial assets		-	(15,010)	-	(27,660)
Income tax related to items that may be reclassified subsequently to profit or loss		-	3,002	-	5,532
<b>Total items that may be reclassified subsequently to profit or loss</b>		<b>-</b>	<b>(12,008)</b>	<b>-</b>	<b>(22,128)</b>
<i>Items that will never be reclassified subsequently to profit or loss</i>					
Changes in the fair value of equity investments accounted for at fair value through other comprehensive income		160	-	24,960	-
Remeasurements of the defined benefit liability		202,208	(33,632)	57,773	(80,676)
Income tax related to items that will never be reclassified subsequently to profit or loss		(19,800)	1,912	(10,605)	5,562
<b>Total items that will not be reclassified subsequently to profit or loss</b>		<b>182,568</b>	<b>(31,720)</b>	<b>72,128</b>	<b>(75,114)</b>
<b>Other comprehensive income/(cost) for the period, net of income tax</b>		<b>182,568</b>	<b>(43,728)</b>	<b>72,128</b>	<b>(97,242)</b>
<b>Total comprehensive income for the period</b>		<b>426,534</b>	<b>231,188</b>	<b>2,235,280</b>	<b>2,630,859</b>
<b>Profit attributable to:</b>					
Equity holders of the Company		227,674	264,453	2,131,136	2,701,101
Non-controlling interests		16,292	10,463	32,016	27,000
<b>Total comprehensive income attributable to:</b>					
Equity holders of the Company		410,242	220,725	2,203,264	2,603,859
Non-controlling interest		16,292	10,463	32,016	27,000
<b>Earnings per share</b>					
Basic and diluted earnings per ordinary share (in RUB)	17	0.005	0.006	0.050	0.064

These consolidated interim condensed financial statements were approved by management on 22.08.2018 and were signed on this behalf by:

Acting General Director

Chief Accountant

A.V. Pilyugin

L.A. Sklyarova

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

**PJSC “IDGC of Centre”**  
**Consolidated Interim Condensed Statement of Financial Position**  
**as at 30 June 2018 (unaudited)**

*In thousand of Russian rubles, unless otherwise stated*

	<b>Notes</b>	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	85,354,383	85,721,289
Intangible assets	12	2,500,135	2,380,170
Trade and other receivables	14	794,613	1,037,558
Assets related to employee benefits plans		582,938	541,679
Financial investments	13	214,905	189,945
<b>Total non-current assets</b>		<b>89,446,974</b>	<b>89,870,641</b>
<b>Current assets</b>			
Inventories		3,027,586	2,128,986
Income tax prepayments		608,065	421,709
Trade and other receivables	14	10,167,508	11,295,073
Cash and cash equivalents	15	318,191	1,362,307
<b>Total current assets</b>		<b>14,121,350</b>	<b>15,208,075</b>
<b>Total assets</b>		<b>103,568,324</b>	<b>105,078,716</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	16	4,221,794	4,221,794
Reserves		(246,607)	(318,735)
Retained earnings		41,319,887	40,060,231
<b>Total equity attributable to equity holders of the Company</b>		<b>45,295,074</b>	<b>43,963,290</b>
Non-controlling interest		231,241	199,225
<b>Total equity</b>		<b>45,526,315</b>	<b>44,162,515</b>
<b>Non-current liabilities</b>			
Loans and borrowings	18	38,479,450	33,989,210
Trade and other payables	19	1,326,225	923,355
Employee benefits		2,386,175	2,432,135
Deferred tax liabilities		4,747,944	4,680,085
<b>Total non-current liabilities</b>		<b>46,939,794</b>	<b>42,024,785</b>
<b>Current liabilities</b>			
Loans and borrowings	18	312,156	7,491,456
Trade and other payables	19	10,135,079	10,828,220
Provisions		654,878	487,743
Current income tax liabilities		102	83,997
<b>Total current liabilities</b>		<b>11,102,215</b>	<b>18,891,416</b>
<b>Total liabilities</b>		<b>58,042,009</b>	<b>60,916,201</b>
<b>Total equity and liabilities</b>		<b>103,568,324</b>	<b>105,078,716</b>

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

**PJSC “IDGC of Centre”**  
**Consolidated Interim Condensed Statements of Cash Flows**  
**for the six months ended 30 June 2018 (unaudited)**  
*In thousand of Russian rubles, unless otherwise stated*

	Notes	<b>For the six months ended 30 June</b>	
		<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before income tax		<b>3,098,847</b>	<b>4,102,378</b>
<i>Adjustments for:</i>			
Depreciation and amortization of property, plant and equipment and intangible assets	9,11,12	4,996,938	4,741,585
Finance costs	10	1,770,683	2,215,418
Finance income	10	(102,990)	(330,398)
Loss/(gain) on disposal of property, plant and equipment		2,120	4,489
Allowance for expected credit losses, net	9	326,404	(47,955)
Bad debt write-off		1,558	142,473
Other non-cash transactions		11,883	(39,633)
<b>Total impact of adjustments</b>		<b>7,006,596</b>	<b>6,685,979</b>
Change in assets related to employee benefits plans		(41,259)	(48,386)
Change in employee benefit liabilities		(75,360)	(85,680)
<b>Cash flows from operating activities before changes in working capital and provisions</b>		<b>9,988,824</b>	<b>10,654,291</b>
<i>Changes in working capital and provisions:</i>			
Change in trade and other receivables		1,026,853	583,538
Change in inventories		(898,581)	(834,847)
Change in trade and other payables		161,115	227,793
Change in provisions		167,135	(480,175)
<b>Cash flows from operating activities before income taxes and interest paid</b>		<b>10,445,346</b>	<b>10,150,600</b>
Income tax paid		(1,148,692)	(966,629)
Interest paid		(1,735,670)	(2,223,313)
<b>Net cash flows received from operating activities</b>		<b>7,560,984</b>	<b>6,960,658</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment and intangible assets		(5,118,728)	(5,155,114)
Proceeds from the sale of property, plant and equipment and intangible assets		3,698	482
Interest received		46,064	278,709
Dividends received		6,999	7,300
<b>Net cash flows (used in) in investing activities</b>		<b>(5,061,967)</b>	<b>(4,868,623)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans and borrowings		79,501,765	8,700,000
Repayment of loans and borrowings		(82,212,192)	(9,598,100)
Dividends paid		(831,993)	(204)
Repayment of finance lease liabilities		(713)	(1,352)
<b>Net cash flows (used in) from financing activities</b>		<b>(3,543,133)</b>	<b>(899,656)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1,044,116)</b>	<b>1,192,379</b>
<b>Cash and cash equivalents at the beginning of period</b>		<b>1,362,307</b>	<b>2,567,305</b>
<b>Cash and cash equivalents at the end of period</b>	15	<b>318,191</b>	<b>3,759,684</b>

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

**PJSC “IDGC of Centre”**  
**Consolidated Interim Condensed Statement of Changes in Equity**  
**for the six months ended 30 June 2018 (unaudited)**  
*In thousand of Russian rubles, unless otherwise stated*

	Notes	Attributable to equity holders of the Company			Total	Non-controlling interest	Total equity
		Share capital	Reserves	Retained earnings			
<b>Balance at 1 January 2018</b>		<b>4,221,794</b>	<b>(318,735)</b>	<b>40,060,231</b>	<b>43,963,290</b>	<b>199,225</b>	<b>44,162,515</b>
Profit for the period		-	-	2,131,136	2,131,136	32,016	2,163,152
Other comprehensive income		-	82,733	-	82,733	-	82,733
Related income tax		-	(10,605)	-	(10,605)	-	(10,605)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>72,128</b>	<b>2,131,136</b>	<b>2,203,264</b>	<b>32,016</b>	<b>2,235,280</b>
<b>Transactions with equity holders of the Company</b>							
Dividends	16	-	-	(879,028)	(879,028)	-	(879,028)
Other	16	-	-	7,548	7,548	-	7,548
<b>Total transactions with equity holders of the Company</b>		<b>-</b>	<b>-</b>	<b>(871,480)</b>	<b>(871,480)</b>	<b>-</b>	<b>(871,480)</b>
<b>Balance at 30 June 2018</b>		<b>4,221,794</b>	<b>(246,607)</b>	<b>41,319,887</b>	<b>45,295,074</b>	<b>231,241</b>	<b>45,526,315</b>

  

	Notes	Attributable to equity holders of the Company			Total	Non-controlling interest	Total equity
		Share capital	Reserves	Retained earnings			
<b>Balance at 1 January 2017</b>		<b>4,221,794</b>	<b>(81,778)</b>	<b>38,947,905</b>	<b>43,087,921</b>	<b>165,809</b>	<b>43,253,730</b>
Profit for the period		-	-	2,701,101	2,701,101	27,000	2,728,101
Other comprehensive income		-	(108,336)	-	(108,336)	-	(108,336)
Related income tax		-	11,094	-	11,094	-	11,094
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>(97,242)</b>	<b>2,701,101</b>	<b>2,603,859</b>	<b>27,000</b>	<b>2,630,859</b>
<b>Transactions with equity holders of the Company</b>							
Dividends	16	-	-	(1,866,675)	(1,866,675)	(11,117)	(1,877,792)
Other	16	-	-	737	737	-	737
<b>Total transactions with equity holders of the Company</b>		<b>-</b>	<b>-</b>	<b>(1,865,938)</b>	<b>(1,865,938)</b>	<b>(11,117)</b>	<b>(1,877,055)</b>
<b>Balance at 30 June 2017</b>		<b>4,221,794</b>	<b>(179,020)</b>	<b>39,783,068</b>	<b>43,825,842</b>	<b>181,692</b>	<b>44,007,534</b>

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

## **1 Background**

### **(a) The Group and its operation**

The primary activities of Public Joint-Stock Company "Interregional Distribution Grid Company of Centre" (hereinafter referred to as the PJSC "IDCG of Centre" or the "Company") and its subsidiaries (hereinafter together referred to as the "Group") are provision of services for transmission and distribution of electricity for power grids, as well as the provision of services for technological connection of consumers to the network, as well as the sale of electricity to the end consumer in a number of regions of the Russian Federation.

The parent company is PJSC "Rosseti".

PJSC "IDGC of Centre" and its subsidiaries comprise Russian public and joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 17 December 2004 based on Resolution no. 154p of 9 December 2004 and pursuant to the Board of Directors' decision (board of directors' meeting minutes no. 178 of 1 October 2004) and Management Board decision (Management Board meeting minute no. 1102 of 15 November 2004) of Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereinafter - "RAO UES"). From 07 July 2015, OJSC "IDGC of Centre" is renamed as PJSC "IDGC of Centre" based on the Decision of the Annual General Meeting of Shareholders of OJSC "IDGC of Centre" dated 25.06.2015 (minutes No. 01/15 of 26.06.2015), in order to bring it in line with the legal requirements.

The average number of employees PJSC «IDGC of Centre» was 29,689 employees as at 30 June 2018 (as at 31 December 2017: 29,612 employees).

The Company's registered office is 2nd Yamskaya St., 4, Moscow, 127018, Russia.

The Company's de facto address is 2nd Yamskaya St., 4, Moscow, 127018, Russia.

In September 2017, the Company took over the functions of the sole Executive body of Public joint stock company "Interregional distribution grid company of Center and Volga region" (hereafter PJSC "IDGC of Center and Volga region") pursuant to the Board of Directors' decision (Board of directors' meeting Minutes no. 22/17 of 07 September 2017). Between PJSC "IDGC of Centre" and JSC "IDGC of Center and Volga region" concluded agreement no. 7700/00313/17 of 11.09.2017 for a period of three years. In accordance with the agreement, PJSC "IDGC of Centre" is the management company for PJSC "IDGC of Center and Volga region". The Company exercises the rights and carries out the duties of the sole Executive body of PJSC "IDGC of Center and Volga region" to the extent and with those limitations which are determined by the legislation of the Russian Federation, the Articles of Association, the internal documents, the decisions of the General meeting of shareholders and/or the Board of Directors of PJSC "IDGC of Center and Volga region".

The Group consists of PJSC "IDGC of Centre" and its subsidiaries, presented in Note 5.

### **(b) Russian business environment**

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

Consequently, the business of the Group is exposed to the economic and financial markets of the Russian Federation, which are characterized by features of the 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 continuing deterioration of the political situation caused by the growing tensions between the Russian Federation and the United States, the European Union and related events have led to a revision of the risk assessments of doing business in the Russian Federation in the direction of increasing. 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

## **1 Background (continued)**

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.

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

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

### **(c) Relation with state**

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

As at 30 June 2018, the share of the Russian Federation in the authorized capital of the parent company of PJSC "Rosseti" was 88.04%, including 88.89% of the voting ordinary shares and 7.01% of the preference shares. As at 31 December 2017, the share of the Russian Federation in the authorized capital of the parent company of PJSC "Rosseti" was 88.04%, including 88.89% of the voting ordinary shares and 7.01% of the preference shares.

PJSC "Rosseti", in its turn, owns 50.23% of the Company's shares.

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

## **2 Basis of preparation of consolidated financial statements**

### **(a) Statement of compliance**

These consolidated interim condensed financial statements for three and six months ended 30 June 2018 have been prepared in accordance with IAS 34 "Interim Financial Reporting". These consolidated interim condensed financial statements should be read in conjunction with consolidated financial statements as at 31 December 2017 that have been prepared in accordance with International Financial Reporting Standards (IFRS).

### **(b) Use of estimates and professional judgments**

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

The key estimates and judgments used by the Group in preparing the consolidated interim condensed financial statements are consistent with those described in the audited consolidated financial statements for the year ended 31 December 2017.

The management continuously reviews estimates and assumptions made based on experience and other factors that were used to determine the book value of assets and liabilities. Changes in estimates and assumptions are recognized in the period in which they were taken if the change affects only that period or

## 2 Basis of preparation of consolidated financial statements (continued)

are recognized in the period to which the change relates and in subsequent periods if the change affects both the given and for future periods.

### (c) Change in presentation

#### *Reclassification of comparative date*

The Group has consistently applied the accounting policies to all period presented in these consolidated interim condensed financial statements.

Certain amounts of the previous year have been adjusted to conform to the current year disclosures.

When necessary, comparative information for the prior periods has been reclassified due to the application of the extended data presentation. The quantitative impact of this reclassification on the comparative information specified in the statement as at and for the three and six months ended 30 June 2017 is set below.

In the comparative period, the Group allocated an allowance for impairment of trade and other receivables and loans from the allowance for impairment of receivables to the allowance for expected credit losses. The effect of reclassification has attached the relevant articles of the Consolidated Interim Condensed Statement of Cash Flows and Note 9 "Operating expenses". The amounts of impairment of advances issued are included in other non-cash transactions/other expenses:

For the six month ended 30 June 2017	As previously reported	Effect of change	As restated
Allowance for expected credit losses	-	(47,955)	(47,955)
Other non-cash transactions/Other expenses	55,018	(92,494)	(37,476)
Allowance for impairment of accounts receivable	(140,449)	140,449	-
<b>Total</b>	<b>(85,431)</b>	<b>-</b>	<b>(85,431)</b>

Other reclassification:

In note 9 "Operating expenses", information of expenditure items was updated:

For the six month ended 30 June 2017	As previously reported	Effect of change	As restated
Electricity for sale	141,861	93,883	235,744
Other material costs	1,310,529	(93,883)	1,216,646
Other works and industrial services	36,356	145,849	182,205
Communication services	120,646	9,159	129,805
Software costs and services	161,752	6,502	168,254
Other services	399,369	(3,183)	396,186
Allowance for expected credit losses	(140,449)	92,494	(47,955)
Other expenses	700,595	(250,821)	449,774
<b>Total</b>	<b>2,730,659</b>	<b>-</b>	<b>2,730,659</b>

### **3 Significant accounting policies**

The key elements of the accounting policies and accounting methods used by the Group are consistent with described in the audited consolidated financial statements for the year ended 31 December 2017, except for the effect of the application of the new standards as described below.

The Group has applied the following new standards since 1 January 2018:

#### *IFRS 15 Revenue from Contracts with Customers*

The Group recognizes revenue when (or as) the performance obligation is fulfilled by transferring the promised good or service (i.e. an asset) to customer. Revenue is measured at the transaction price or its part equal to the amount of consideration to which the Group expects to be entitled in exchange for transferring promised assets to a customer, excluding amounts collected on behalf of third parties (for example, net of recoverable taxes).

#### *Electricity transmission and sales of electricity and capacity*

Revenue from electricity transmission and sale is recognized during the period (accounting month) and is estimated by the output methods (cost of transferred volumes of electric energy). The tariffs for the electricity transmission (in respect to all subjects of the Russian Federation) and sale of electricity and capacity on the regulated market (in respect of constituent entities of the Russian Federation, not united in price zones of the wholesale electricity market) are approved by the executive authorities of subjects of the Russian Federation in the field of state regulation of tariffs (hereinafter – regional authority) within the limit minimum and (or) maximum levels approved by the Federal Antimonopoly Service.

#### *Technological connection services*

Revenue recognition from this type of services is performed at the beginning of electricity supply and connection of the consumer to the power grid on the basis of the act on technological connection.

Payment for technological connection for an individual project, the standardized tariff rates, the rates for an unit of maximum capacity and the form of payment for technological connection are approved by the regional energy commission (the department of prices and tariffs of the corresponding region) and do not depend on the proceeds from the provision of electricity transmission services.

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

The Group applied judgment that technological connection is a separate performance obligation that is recognized when the related services are provided. The technological connection agreement does not contain any further obligations after the provision of the connection service. According to the established practice and laws governing the electricity market, technological connection and transmission of electricity are subject to separate negotiations with different consumers as different services with different commercial purposes without connection in pricing, intentions, recognition or types of services.

#### *Other services*

Revenue from installation, repair and maintenance services and other sales is recognized when the customer receives control of the asset.

In accordance with IFRS 15 transition requirements, the Group has chosen to apply the standard retrospectively with the recognition of the cumulative effect of the initial application as part of the retained earnings opening balance as at 1 January 2018. The application of this standard had no a material impact on the Group's consolidated interim condensed financial statements, respectively, the opening balance of the retained earnings as at 1 January 2018 was not adjusted.

### 3 Significant accounting policies (continued)

#### *IFRS 9 Financial Instruments*

The standard introduces new requirements for classification and measurement of financial instruments, impairment and hedge accounting. As the Group does not apply hedge accounting, the main changes relevant to the Group impacted its accounting policies for classification of financial instruments and impairment of financial assets.

According to IFRS 9, the financial assets are classified in the following measurement categories: those to be measured subsequently at amortized cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The classification depends on the Group’s business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets are classified as at amortized cost only if both of the following criteria are met: the asset is held within a business model with the objective of collecting the contractual cash flows, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In respect of impairment, IFRS 9 replaced the “incurred loss” model used in IAS 39 Financial instruments: Recognition and Measurement with a new “expected credit loss” (“ECL”) model that requires a more timely recognition of expected credit losses. An allowance for expected credit losses shall be recorded for financial assets classified as at amortized cost.

Under IFRS 9, loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument. For trade receivables the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. For other financial assets classified as at amortized cost loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

In accordance with the transition provisions in IFRS 9, the Group applied the new rules retrospectively, except for the items that have already been derecognized at the date of initial application, which is 1 January 2018. The Group also used an exemption in IFRS 9 allowing not to restate prior periods presented as a result of adoption of the new classification and measurement requirements, but rather recognize any differences in the opening retained earnings as at 1 January 2018. The initial application of the standard did not result in any material changes in the financial Instruments measurement.

On 1 January 2018 (the date of the initial application of IFRS 9 Financial Instruments), The Group assessed the business models it uses to manage financial assets and classified the financial instruments held at that date onto appropriate IFRS 9 measurement categories. The main effects of the classification were the following:

	<b>The balance at 1 January 2018 in accordance with IAS 39</b>	<b>Reclassification of financial assets as at 1 January 2018</b>	<b>The balance at 1 January 2018 un accordance with IFRS 9</b>
Available-for-sale financial assets	189,945	(189,945)	–
Financial assets at fair value through other comprehensive income	–	189,945	189,945
<b>Total</b>	<b>189,945</b>	<b>–</b>	<b>189,945</b>

### 3 Significant accounting policies (continued)

#### *IFRS 9 Financial Instruments (continued)*

The previous measurement category according to IAS 39 and the new measurement category according to IFRS 9 are presented below:

	Measurement category		Carrying amount		
	IAS 39	IFRS 9	IAS 39	IFRS 9	Difference
<b>Non-current financial assets</b>					
Financial investments, including:					
<i>Shares</i>	<i>Available-for-sale</i>	<i>At fair value through other comprehensive income</i>	189,945	189,945	-
Trade and other receivables	Amortized cost	Amortized cost	1,034,282	1,034,282	-
<b>Current financial assets</b>					
Trade and other receivables	Amortized cost	Amortized cost	10,681,995	10,681,995	-
Cash and cash equivalents			1,362,307	1,362,307	-
<b>Non-current and current financial liabilities</b>					
Loans and borrowings, accounts payables	Amortized cost	Amortized cost	48,312,192	48,312,192	-

The following amendments to standards and interpretations effective from 1 January 2018 did not have an impact on these consolidated interim condensed financial statements:

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2);
- Transfers of Investment Property (Amendments to IAS 40);
- Annual Improvements to IFRSs 2014-2016 Cycle;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

The following new standards and interpretations have been issued and become effective for annual periods beginning on or after 1 January 2019 and have not been early adopted by the Group:

#### *IFRS 16 Leases*

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

### **3 Significant accounting policies (continued)**

#### *IFRS 16 Leases (continued)*

make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The Group will be required to recognize separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. IFRS 16 is effective for annual period beginning on or after 1 January 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is considering the implication of this standard for the Group's consolidated financial statements.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);
- IFRIC 23 Uncertainty over Income Tax Treatments;
- IFRS 17 Insurance Contracts.

### **4 Measurement of fair value**

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

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

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

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

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

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

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

## 5 Significant subsidiaries

	Country of incorporation	30 June 2018	31 December 2017
		Ownership/voiting, %	Ownership/voiting, %
JSC “Sanatorium “Energetic”	Russian Federation	100	100
JSC “Yaroslavl Electric Grid Company”	Russian Federation	51	51

At the Subsidiary’s annual shareholders meeting JCS “Yaroslavl Electric Grid Company” held on 26 June 2017 the decision was made to distribute the Subsidiary’s profit for the year 2016 to dividends in the amount of RUB 22,688 thousand and to pay dividends for the year 2016 in the amount of RUB 22,688.3626 per ordinary share in cash. Dividends payable to shareholders with non-controlling interests, amounted to RUB 11,117 thousand.

At the Subsidiary’s annual shareholders meeting JCS “Yaroslavl Electric Grid Company” held on 29 June 2018 the decision was made not to pay dividends on ordinary shares for the year 2017.

## 6 Information about segments

The Management Board of PJSC “IDGC of Centre” is the supreme body that makes decisions on operating activities.

The primary activities of the Group are provision of services for transmission and distribution of electricity for power grids, as well as the provision of services for technological connection of consumers to the network, as well as the sale of electricity to the end consumer in a number of regions of the Russian Federation. From 2016, the division of the Company Tverenergo performs the electricity guarantee supplier function in the territory of Tver Region.

The internal management system is based on segments (branches formed on a territorial basis) related to transmission and distribution of electricity, technological connection to electric grids and electricity sales to the end user in a number of regions of the Russian Federation.

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

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

- Branch Belgorodenergo, branch Bryanskenergo, branch Voronezhenergo, branch Kostromaenergo, branch Kurskenergo, branch Lipetskenergo, branch Orelenergo, branch Smolenskenergo, branch Tambovenrgo, branch Tverenergo, branch Yarenergo
- Others

The category of “Others” include operations of subsidiaries and the head office branch. None of them meets any of the quantitative thresholds for determining reportable segments.

Segment indicators are based on management information, which is prepared on the basis of RAS financial statements and may differ those presented in the financial statements prepared in accordance with IFRS. The reconciliation of the indicators in the evaluation to the Management Board and similar indicators in these consolidated interim condensed financial statements includes those reclassifications and adjustments that are necessary for reporting in accordance with IFRS.

## 6 Information about segments (continued)

### (a) Information about reportable segments

For the three months ended 30 June 2018:

	<b>Belgorod energo</b>	<b>Bryansk energo</b>	<b>Voronezh energo</b>	<b>Kostroma energo</b>	<b>Kursk energo</b>	<b>Lipetsk energo</b>	<b>Orel energo</b>	<b>Smolensk energo</b>	<b>Tambov energo</b>	<b>Tver energo</b>	<b>Yar energo</b>	<b>Others</b>	<b>Total</b>
Revenue from external customers	3,036,345	1,160,013	3,187,169	1,202,937	1,752,094	2,063,995	1,031,192	1,693,142	1,369,497	2,482,367	2,288,057	44,367	<b>21,311,175</b>
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	445	109,245	<b>109,690</b>
<b>Segment revenue</b>	<b>3,036,345</b>	<b>1,160,013</b>	<b>3,187,169</b>	<b>1,202,937</b>	<b>1,752,094</b>	<b>2,063,995</b>	<b>1,031,192</b>	<b>1,693,142</b>	<b>1,369,497</b>	<b>2,482,367</b>	<b>2,288,502</b>	<b>153,612</b>	<b>21,420,865</b>
Including													
<i>Electricity transmission</i>	2,858,856	1,146,387	3,112,212	1,180,371	1,573,456	2,000,919	1,021,789	1,651,022	1,337,788	2,264,379	2,151,488	106,674	<b>20,405,341</b>
<i>Technological connection services</i>	95,866	3,899	37,841	9,182	167,419	22,011	985	9,469	21,214	17,661	110,200	75	<b>495,822</b>
<i>Sale of electricity and capacity</i>	-	-	-	-	-	-	-	-	-	185,595	-	-	<b>185,595</b>
<i>Other revenue</i>	81,623	9,727	37,116	13,384	11,219	41,065	8,418	32,651	10,495	14,732	26,814	46,863	<b>334,107</b>
<b>EBITDA</b>	<b>692,893</b>	<b>181,817</b>	<b>506,419</b>	<b>245,432</b>	<b>313,802</b>	<b>473,888</b>	<b>90,653</b>	<b>281,244</b>	<b>193,252</b>	<b>(14,002)</b>	<b>569,798</b>	<b>57,451</b>	<b>3,592,647</b>

## 6 Information about segments (continued)

For the three months ended 30 June 2017:

	<b>Belgorod energo</b>	<b>Bryansk energo</b>	<b>Voronezh energo</b>	<b>Kostroma energo</b>	<b>Kursk energo</b>	<b>Lipetsk energo</b>	<b>Orel energo</b>	<b>Smolensk energo</b>	<b>Tambov energo</b>	<b>Tver energo</b>	<b>Yar energo</b>	<b>Others</b>	<b>Total</b>
Revenue from external customers	3,426,017	1,137,832	2,899,089	1,150,801	1,659,276	2,080,528	1,004,265	1,603,886	1,327,601	2,530,686	2,093,979	14,962	<b>20,928,922</b>
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	448	96,321	<b>96,769</b>
<b>Segment revenue</b>	<b>3,426,017</b>	<b>1,137,832</b>	<b>2,899,089</b>	<b>1,150,801</b>	<b>1,659,276</b>	<b>2,080,528</b>	<b>1,004,265</b>	<b>1,603,886</b>	<b>1,327,601</b>	<b>2,530,686</b>	<b>2,094,427</b>	<b>111,283</b>	<b>21,025,691</b>
Including													
<i>Electricity transmission</i>	<i>3,285,439</i>	<i>1,124,079</i>	<i>2,841,917</i>	<i>1,115,043</i>	<i>1,587,333</i>	<i>2,046,773</i>	<i>988,211</i>	<i>1,556,611</i>	<i>1,301,025</i>	<i>2,281,826</i>	<i>2,029,527</i>	<i>93,871</i>	<b>20,251,655</b>
<i>Technological connection services</i>	<i>79,790</i>	<i>4,412</i>	<i>17,012</i>	<i>25,233</i>	<i>55,560</i>	<i>22,674</i>	<i>2,536</i>	<i>19,331</i>	<i>11,666</i>	<i>46,056</i>	<i>31,562</i>	<i>543</i>	<b>316,375</b>
<i>Sale of electricity and capacity</i>	-	-	-	-	-	-	-	-	-	<i>189,791</i>	-	-	<b>189,791</b>
<i>Other revenue</i>	<i>60,788</i>	<i>9,341</i>	<i>40,160</i>	<i>10,525</i>	<i>16,383</i>	<i>11,081</i>	<i>13,518</i>	<i>27,944</i>	<i>14,910</i>	<i>13,013</i>	<i>33,338</i>	<i>16,869</i>	<b>267,870</b>
<b>EBITDA</b>	<b>990,276</b>	<b>314,830</b>	<b>720,248</b>	<b>310,508</b>	<b>186,863</b>	<b>398,684</b>	<b>104,829</b>	<b>301,326</b>	<b>259,029</b>	<b>155,398</b>	<b>400,223</b>	<b>34,470</b>	<b>4,176,684</b>

## 6 Information about segments (continued)

For the six months ended 30 June 2018:

	<b>Belgorod energo</b>	<b>Bryansk energo</b>	<b>Voronezh energo</b>	<b>Kostroma energo</b>	<b>Kursk energo</b>	<b>Lipetsk energo</b>	<b>Orel energo</b>	<b>Smolensk energo</b>	<b>Tambov energo</b>	<b>Tver energo</b>	<b>Yar energo</b>	<b>Others</b>	<b>Total</b>
Revenue from external customers	6,390,453	2,598,889	7,029,581	2,639,134	3,681,635	4,515,754	2,267,786	3,888,743	3,011,187	5,559,461	5,091,073	81,886	<b>46,755,582</b>
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	1,006	230,223	<b>231,229</b>
<b>Segment revenue</b>	<b>6,390,453</b>	<b>2,598,889</b>	<b>7,029,581</b>	<b>2,639,134</b>	<b>3,681,635</b>	<b>4,515,754</b>	<b>2,267,786</b>	<b>3,888,743</b>	<b>3,011,187</b>	<b>5,559,461</b>	<b>5,092,079</b>	<b>312,109</b>	<b>46,986,811</b>
Including													
<i>Electricity transmission</i>	<i>6,110,873</i>	<i>2,560,827</i>	<i>6,889,491</i>	<i>2,594,899</i>	<i>3,468,353</i>	<i>4,412,435</i>	<i>2,249,950</i>	<i>3,751,386</i>	<i>2,935,942</i>	<i>5,203,065</i>	<i>4,913,453</i>	<i>225,765</i>	<b><i>45,316,439</i></b>
<i>Technological connection services</i>	<i>119,753</i>	<i>22,386</i>	<i>70,296</i>	<i>19,502</i>	<i>192,639</i>	<i>45,128</i>	<i>1,385</i>	<i>79,918</i>	<i>49,973</i>	<i>52,059</i>	<i>128,125</i>	<i>447</i>	<b><i>781,611</i></b>
<i>Sale of electricity and capacity</i>	-	-	-	-	-	-	-	-	-	278,389	-	-	<b><i>278,389</i></b>
<i>Other revenue</i>	<i>159,827</i>	<i>15,676</i>	<i>69,794</i>	<i>24,733</i>	<i>20,643</i>	<i>58,191</i>	<i>16,451</i>	<i>57,439</i>	<i>25,272</i>	<i>25,948</i>	<i>50,501</i>	<i>85,897</i>	<b><i>610,372</i></b>
<b>EBITDA</b>	<b>1,651,388</b>	<b>557,794</b>	<b>1,417,819</b>	<b>636,527</b>	<b>679,144</b>	<b>963,238</b>	<b>322,955</b>	<b>915,397</b>	<b>723,107</b>	<b>150,333</b>	<b>1,389,575</b>	<b>113,313</b>	<b>9,520,590</b>

## 6 Information about segments (continued)

For the six months ended 30 June 2017:

	<b>Belgorod energo</b>	<b>Bryansk energo</b>	<b>Voronezh energo</b>	<b>Kostroma energo</b>	<b>Kursk energo</b>	<b>Lipetsk energo</b>	<b>Orel energo</b>	<b>Smolensk energo</b>	<b>Tambov energo</b>	<b>Tver energo</b>	<b>Yar energo</b>	<b>Others</b>	<b>Total</b>
Revenue from external customers	7,256,378	2,442,630	6,343,737	2,478,556	3,517,595	4,529,904	2,147,559	3,541,091	2,935,331	5,393,418	4,617,080	22,246	<b>45,225,525</b>
Inter-segment revenue											955	202,221	<b>203,176</b>
<b>Segment revenue</b>	<b>7,256,378</b>	<b>2,442,630</b>	<b>6,343,737</b>	<b>2,478,556</b>	<b>3,517,595</b>	<b>4,529,904</b>	<b>2,147,559</b>	<b>3,541,091</b>	<b>2,935,331</b>	<b>5,393,418</b>	<b>4,618,035</b>	<b>224,467</b>	<b>45,428,701</b>
Including													
<i>Electricity transmission</i>	6,950,035	2,420,406	6,235,763	2,407,922	3,422,630	4,474,390	2,119,219	3,444,253	2,793,438	5,041,414	4,503,317	197,774	<b>44,010,561</b>
<i>Technological connection services</i>	165,000	6,463	33,092	47,915	69,762	36,773	6,300	43,807	119,218	50,665	52,195	587	<b>631,777</b>
<i>Sale of electricity and capacity</i>	-	-	-	-	-	-	-	-	-	279,221	-	-	<b>279,221</b>
<i>Other revenue</i>	141,343	15,761	74,882	22,719	25,203	18,741	22,040	53,031	22,675	22,118	,62,523	26,106	<b>507,142</b>
<b>EBITDA</b>	<b>2,335,808</b>	<b>660,534</b>	<b>1,546,412</b>	<b>721,862</b>	<b>491,176</b>	<b>829,276</b>	<b>347,420</b>	<b>872,215</b>	<b>827,503</b>	<b>870,037</b>	<b>1,165,828</b>	<b>87,698</b>	<b>10,755,769</b>

## 6 Information about segments (continued)

30 June 2018:

	<b>Belgorod energo</b>	<b>Bryask energo</b>	<b>Voronezh energo</b>	<b>Kostroma energo</b>	<b>Kursk energo</b>	<b>Lipetsk energo</b>	<b>Orel energo</b>	<b>Smolensk energo</b>	<b>Tambov energo</b>	<b>Tver energo</b>	<b>Yar energo</b>	<b>Others</b>	<b>Total</b>
<b>Segments assets</b>	25,371,843	5,037,420	12,741,326	6,549,111	7,396,511	16,620,088	4,006,453	7,606,931	6,041,770	10,545,085	14,040,247	1,931,116	<b>117,887,901</b>
Including property, plant and equipment and construction in progress	23,647,796	4,404,048	11,134,934	5,828,977	6,271,734	13,776,347	3,470,440	6,531,928	4,248,255	8,135,994	10,980,138	477,198	98,907,789

31 December 2017:

	<b>Belgorod energo</b>	<b>Bryansk energo</b>	<b>Voronezh energo</b>	<b>Kostroma energo</b>	<b>Kursk energo</b>	<b>Lipetsk energo</b>	<b>Orel energo</b>	<b>Smolensk energo</b>	<b>Tambov energo</b>	<b>Tver energo</b>	<b>Yar energo</b>	<b>Others</b>	<b>Total</b>
<b>Segment assets</b>	26,023,341	5,167,212	12,542,480	6,575,565	7,601,480	16,600,411	4,061,848	7,833,945	5,926,503	10,985,392	14,191,286	2,644,900	<b>120,154,363</b>
Including property, plant and equipment and construction in progress	23,886,119	4,492,707	11,125,720	5,872,914	6,354,909	14,165,537	3,523,284	6,643,501	4,137,633	8,312,812	11,148,100	419,324	100,082,560

## 6 Information about segments (continued)

### (b) The reconciliation of reportable segments EBITDA:

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	2018	2017
<b>EBITDA of reportable segments</b>	<b>3,592,647</b>	<b>4,176,684</b>	<b>9,520,590</b>	<b>10,755,769</b>
Discounting receivables	4,063	4,747	8,810	9,506
Adjustment for finance lease	487	383	1,032	383
Recognition of pension and other long-term liabilities to employees	3,793	1,645	(11,813)	(2,547)
Adjustment on assets related to employee benefit liabilities	61,979	2,756	41,259	48,386
Re-measurement of investments (transfer of revaluation to equity)	(160)	15,010	(24,960)	27,660
Adjustment of the value of property, plant and equipment	(1,387)	4,025	(584)	4,336
Other adjustments	150,569	80,896	237,284	122,259
<b>EBITDA</b>	<b>3,811,991</b>	<b>4,286,146</b>	<b>9,771,618</b>	<b>10,965,752</b>
Depreciation and amortization	(2,507,197)	(2,374,791)	(4,996,938)	(4,741,585)
Interest expenses on financial liabilities	(795,164)	(1,052,678)	(1,675,409)	(2,121,685)
Interest expenses of finance lease liabilities	(194)	(104)	(424)	(104)
Income tax expense	(265,470)	(583,657)	(935,695)	(1,374,277)
<b>Profit for the period per statement of profit or loss and other comprehensive income</b>	<b>243,966</b>	<b>274,916</b>	<b>2,163,152</b>	<b>2,728,101</b>

## 7 Revenue

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	2018	2017
Electricity transmission	20,372,954	20,227,719	45,090,674	43,812,787
Technological connection services	495,822	316,375	781,611	631,777
Sale of electricity and capacity	111,308	119,856	278,389	279,221
Other revenue	331,091	263,810	604,908	501,740
	<b>21,311,175</b>	<b>20,927,760</b>	<b>46,755,582</b>	<b>45,225,525</b>

Other revenues are comprised of repair and maintenance services, rental income and other.

Other revenue includes also revenue from performing the functions of the sole Executive body of PJSC “IDGC of Center and Volga region” for the three and six months ended 30 June 2018 in the amount of RUB 27,440 thousand and RUB 55,017 thousand (for the three and six months ended 30 June 2017 nil).

## 8 Net other income

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	2018	2017
Income from identified non-contracted electricity consumption	15,773	29,321	44,467	51,126
Income in the form of fines and penalties on commercial contracts	198,308	140,414	340,483	214,994
Accounts payable write-off	4,917	16,302	16,664	39,588
Income from gratuitously received property, plant and equipment and inventories	6,483	6,546	6,483	6,546
Other income	37,417	89,596	96,657	115,231
	<b>262,898</b>	<b>282,179</b>	<b>504,754</b>	<b>427,485</b>

## 9 Operating expenses

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	2018	2017
Personnel costs	4,753,185	4,787,417	9,454,588	9,369,007
Depreciation and amortization	2,507,197	2,374,791	4,996,938	4,741,585
<i>Material expenses, including:</i>				
Electricity for compensation of losses	2,621,296	2,290,465	7,528,924	6,171,930
Electricity for sale	161,955	152,763	247,675	235,744
Purchased electricity and heat power for own needs	49,209	53,260	238,241	207,887
Other material costs	822,464	776,401	1,267,998	1,216,646
<i>Production work and services, including:</i>				
Electricity transmission services	7,334,265	7,184,932	15,172,518	14,562,168
Repair and maintenance services	162,994	185,645	217,567	249,391
Other works and industrial services	140,674	121,520	218,967	182,205
Taxes and levies other than income tax	476,438	403,659	951,714	807,295
Rent	118,934	124,861	232,706	245,115
Insurance	36,152	36,490	71,788	72,961
<i>Other third-party services, including:</i>				
Communication services	68,814	65,945	134,884	129,805
Security services	75,948	75,527	150,527	149,939
Consulting, legal and audit services	8,013	23,004	12,653	30,283
Software costs and services	79,507	94,912	161,015	168,254
Transportation services	5,047	5,869	9,242	9,508
Other services	239,698	201,704	405,933	396,186
Allowance for expected credit losses	197,039	(292,902)	326,404	(47,955)
Provisions	119,053	91,112	218,938	45,063
Debt settlement for electricity transmission, electricity for sale, purchased electricity to compensate for losses and non-contracted consumption	144,393	272,821	144,393	272,821
Other expenses	168,198	386,361	330,183	449,774
	<b>20,290,473</b>	<b>19,416,557</b>	<b>42,493,796</b>	<b>39,665,612</b>

## 10 Finance income and costs

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	2018	2017
<b>Finance income</b>				
Interest income on bank deposits and balances on bank accounts	16,994	158,403	46,064	278,709
Dividends receivable	7,412	-	7,412	7,300
Interest income on assets related to employee defined benefits plans	-	-	-	34,883
Other finance income	44,767	4,747	49,514	9,506
	<b>69,173</b>	<b>163,150</b>	<b>102,990</b>	<b>330,398</b>
<b>Finance costs</b>				
Interest expenses on financial liabilities measured at amortized cost	(795,164)	(1,052,678)	(1,675,409)	(2,121,685)
Interest expenses on finance lease liabilities	(194)	(104)	(424)	(104)
Interest expenses on long-term employee benefit liabilities	(42,418)	(42,735)	(87,173)	(88,227)
Other finance costs	(5,561)	(2,442)	(7,677)	(5,402)
	<b>(843,337)</b>	<b>(1,097,959)</b>	<b>(1,770,683)</b>	<b>(2,215,418)</b>

## 11 Property, plant and equipment

	<b>Land and buildings</b>	<b>Electricity transmission networks</b>	<b>Equipment for electricity transmission</b>	<b>Other</b>	<b>Construction in progress</b>	<b>Total</b>
<i>Cost/deemed cost</i>						
<b>At 1 January 2017</b>	<b>34,173,604</b>	<b>60,039,279</b>	<b>35,331,460</b>	<b>18,336,210</b>	<b>3,866,317</b>	<b>151,746,870</b>
Reclassification between groups	(2,103)	2,403	(53)	(247)	-	-
Additions	-	4,261	195	4,490	4,148,769	4,157,715
Transfer	458,054	1,432,037	373,847	853,380	(3,117,318)	-
Disposals	(460)	(2,975)	(11,598)	(48,966)	(1,017)	(65,016)
<b>At 30 June 2017</b>	<b>34,629,095</b>	<b>61,475,005</b>	<b>35,693,851</b>	<b>19,144,867</b>	<b>4,896,751</b>	<b>155,839,569</b>
<i>Accumulated depreciation and impairment</i>						
<b>At 1 January 2017</b>	<b>(11,596,191)</b>	<b>(29,938,498)</b>	<b>(14,044,233)</b>	<b>(12,191,638)</b>	<b>(185,492)</b>	<b>(67,956,052)</b>
Reclassification between groups	12	-	(248)	236	-	-
Transfer to property, plant and equipment (transfer of impairment losses)	(2,379)	(395)	(500)	(262)	3,536	-
Depreciation charge	(764,891)	(1,873,176)	(1,011,597)	(900,165)	-	(4,549,829)
Disposals	403	2,561	8,940	47,457	67	59,428
<b>At 30 June 2017</b>	<b>(12,363,046)</b>	<b>(31,809,508)</b>	<b>(15,047,638)</b>	<b>(13,044,372)</b>	<b>(181,889)</b>	<b>(72,446,453)</b>
<i>Net book value</i>						
<b>At 1 January 2017</b>	<b>22,577,413</b>	<b>30,100,781</b>	<b>21,287,227</b>	<b>6,144,572</b>	<b>3,680,825</b>	<b>83,790,818</b>
<b>At 30 June 2017</b>	<b>22,266,049</b>	<b>29,665,497</b>	<b>20,646,213</b>	<b>6,100,495</b>	<b>4,714,862</b>	<b>83,393,116</b>

## 11 Property, plant and equipment (continued)

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction progress	Total
<i>Cost/deemed cost</i>						
<b>At 1 January 2018</b>	<b>36,732,212</b>	<b>65,045,464</b>	<b>37,531,240</b>	<b>20,453,838</b>	<b>3,890,860</b>	<b>163,653,614</b>
Reclassification between groups	246	63	(309)	-	-	-
Additions	8	5,574	380	2	4,401,112	4,407,076
Transfer	532,909	1,455,123	781,656	813,896	(3,583,584)	-
Disposals	(2,348)	(5,596)	(6,924)	(78,961)	(732)	(94,561)
<b>At 30 June 2018</b>	<b>37,263,027</b>	<b>66,500,628</b>	<b>38,306,043</b>	<b>21,188,775</b>	<b>4,707,656</b>	<b>167,966,129</b>
<i>Accumulated depreciation and impairment</i>						
<b>At 1 January 2018</b>	<b>(14,506,950)</b>	<b>(33,027,951)</b>	<b>(16,382,638)</b>	<b>(13,817,062)</b>	<b>(197,724)</b>	<b>(77,932,325)</b>
Reclassification between groups	(70)	(1)	71	-	-	-
Transfer to property, plant and equipment (transfer of impairment losses)	(16,143)	(13,324)	(75,164)	(6,218)	110,849	-
Depreciation charge	(779,218)	(2,049,252)	(1,034,837)	(904,236)	-	(4,767,543)
Disposals	2,086	4,386	5,164	76,407	79	88,122
<b>At 30 June 2018</b>	<b>(15,300,295)</b>	<b>(35,086,142)</b>	<b>(17,487,404)</b>	<b>(14,651,109)</b>	<b>(86,796)</b>	<b>(82,611,746)</b>
<i>Net book value</i>						
<b>At 1 January 2018</b>	<b>22,225,262</b>	<b>32,017,513</b>	<b>21,148,602</b>	<b>6,636,776</b>	<b>3,693,136</b>	<b>85,721,289</b>
<b>At 30 June 2018</b>	<b>21,962,732</b>	<b>31,414,486</b>	<b>20,818,639</b>	<b>6,537,666</b>	<b>4,620,860</b>	<b>85,354,383</b>

## 11 Property, plant and equipment (continued)

Capitalized borrowing costs amounted to RUB 79,387 thousand with a capitalization rate 8.12 – 9.42% for the six months ended 30 June 2018 (for six months ended 30 June 2017: RUB 91,022 thousand with a capitalization rate 9.69 – 10.72%).

Depreciation charge has been capitalized to the cost of capital construction objects in the amount of RUB 16,276 thousand for the six months ended 30 June 2018 (for the six months ended 30 June 2017: RUB 15,528 thousand).

## 12 Intangible assets

	Software	R&D	Other intangible assets	Total
<i>Initial costs</i>				
<b>At 1 January 2017</b>	<b>1,465,512</b>	<b>29,947</b>	<b>1,218,251</b>	<b>2,713,710</b>
Reclassification between groups	-	(52,701)	52,701	-
Additions	74,986	25,380	-	100,366
Disposals	(28,760)	(270)	-	(29,030)
<b>At 30 June 2017</b>	<b>1,511,738</b>	<b>2,356</b>	<b>1,270,952</b>	<b>2,785,046</b>
<i>Accumulated amortization and impairment</i>				
<b>At 1 January 2017</b>	<b>(274,588)</b>	-	<b>(93,840)</b>	<b>(368,428)</b>
Amortization charge	(169,469)	-	(37,815)	(207,284)
Disposals	28,760	-	-	28,760
<b>At 30 June 2017</b>	<b>(415,297)</b>	-	<b>(131,655)</b>	<b>(546,952)</b>
<i>Net book value</i>				
<b>At 1 January 2017</b>	<b>1,190,924</b>	<b>29,947</b>	<b>1,124,411</b>	<b>2,345,282</b>
<b>At 30 June 2017</b>	<b>1,096,441</b>	<b>2,356</b>	<b>1,139,297</b>	<b>2,238,094</b>
<i>Initial costs</i>				
<b>At 1 January 2018</b>	<b>1,703,552</b>	<b>21,255</b>	<b>1,271,281</b>	<b>2,996,088</b>
Reclassification between groups	-	(62)	62	-
Additions	357,416	7,181	1,808	366,405
Disposals	(13,572)	-	-	(13,572)
<b>At 30 June 2018</b>	<b>2,047,396</b>	<b>28,374</b>	<b>1,273,151</b>	<b>3,348,921</b>
<i>Accumulated amortization and impairment</i>				
<b>At 1 January 2018</b>	<b>(447,525)</b>	-	<b>(168,393)</b>	<b>(615,918)</b>
Amortization charge	(210,057)	-	(36,383)	(246,440)
Disposals	13,572	-	-	13,572
<b>At 30 June 2018</b>	<b>(644,010)</b>	-	<b>(204,776)</b>	<b>(848,786)</b>
<i>Net book value</i>				
<b>At 1 January 2018</b>	<b>1,256,027</b>	<b>21,255</b>	<b>1,102,888</b>	<b>2,380,170</b>
<b>At 30 June 2018</b>	<b>1,403,386</b>	<b>28,374</b>	<b>1,068,375</b>	<b>2,500,135</b>

## 12 Intangible assets (continued)

Amortization of intangible assets included in operating expenses in consolidated interim condensed statement of profit or loss and other comprehensive income for the six months ended 30 June 2018 is RUB 246,440 thousand (for the six months ended 30 June 2017: RUB 207,284 thousand).

During the reporting period, nonexecutive rights were acquired for software in the amount of RUB 357,416 thousand, including nonexecutive rights for the use of computer programs: SAP, Document Access, Developer User.

Intangible assets are amortized on a straight-line basis.

Other intangible assets include objects of intellectual property, R&D results and objects of Service Concession Arrangement

Into the structure of intangible assets in the subgroup “other intangible assets”, the Group include a right to charge fee from users of services on electricity transmission in accordance with “Service Concession Arrangement concerning the financing, establishment and operation of facilities for the transmission and distribution of electric energy on the territory of the Tambov region”. This agreement provides for the construction by a Group of objects for the purposes of transmission and distribution of electricity in the Tambov region and the provision of transmission services, electricity distribution and connection services with the use of objects of the Service Concession Arrangement. Ownership of the constructed objects belongs to the Tambov region, and the Group receives the right of possession and use of objects for the Group activities. The Service Concession Arrangement is concluded for 20 years. During the Concession Agreement, the Administration of the Tambov Region may grant subsidies to the Group, both in respect of payment of remuneration for construction, and in respect of compensation for lost revenue from electricity transmission. The net book value of the objects of the Concession Agreement as at 30 June 2018 is RUB 960,635 thousand. (as at 31 December 2017: RUB 988,066 thousand). Amortization for the objects of the Concession Agreement is RUB 27,431 thousand for the six months ended 30 June 2018 (for the six months ended 30 June 2017: RUB 27,431 thousand).

## 13 Financial investments

	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Non-current</b>		
Financial assets at fair value through other comprehensive income	214,905	-
Available-for-sale financial assets	-	189,945
	<b>214,905</b>	<b>189,945</b>

Finance assets at fair value through other comprehensive income as at 30 June 2018 and available-for-sale financial assets as at 31 December 2017 include shares of PJSC “Unipro”, PJSC “IDGC of Center and Volga region”, PJSC “FGC UES”. Fair value of these investments is RUB 214,905 thousand and RUB 189,945 thousand respectively.

For the six months ended 30 June 2018 the increase in fair value in the total amount of RUB 24,960 thousand is reflected in other comprehensive income (for the six months ended 30 June 2017 the decrease: RUB 27,660 thousand).

## 14 Trade and other receivables

	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Non-current trade and other account receivables</b>		
Trade receivables	659,959	907,221
Other receivables	127,999	127,061
<b>Total financial assets</b>	<b>787,958</b>	<b>1,034,282</b>
Advances given	6,655	3,276
<b>Total trade and other receivables</b>	<b>794,613</b>	<b>1,037,558</b>
<b>Current trade and other account receivables</b>		
Trade receivables	20,925,082	21,754,731
Allowance for expected credit losses on trade receivables	(11,637,283)	(11,479,271)
Other receivables	1,453,706	1,550,815
Allowance for expected credit losses on other receivables	(1,075,185)	(1,144,280)
Loans given	-	161,600
Allowance for expected credit losses on loans given	-	(161,600)
<b>Total financial assets</b>	<b>9,666,320</b>	<b>10,681,995</b>
Advances given	80,247	145,094
Advances given impairment allowance	(16,563)	(16,452)
VAT recoverable	7,000	9,730
VAT on advances to customers and clients	418,269	452,533
Prepaid taxes, other than income tax and VAT	12,235	22,173
<b>Total trade and other receivables</b>	<b>10,167,508</b>	<b>11,295,073</b>

Balances with related parties are disclosed in Note 23.

## 15 Cash and cash equivalents

			<u>30 June 2018</u>	<u>31 December 2017</u>
Cash in bank accounts and cash on hand			318,191	1,362,307
			<b>318,191</b>	<b>1,362,307</b>
	<u>Rating</u>	<u>Rating agency</u>	<u>30 June 2018</u>	<u>31 December 2017</u>
PJSC “Sberbank of Russia”*	Ba2	Moody’s	285,110	139,529
JSC “Bank GPB”*	Ba2	Moody’s	2,213	262
PJSC “VTB bank”*	Ba2	Moody’s	10,304	234,920
JSC “AB Russia”	ruAA	Expert RA	1,554	961,038
PJSC “Promsvyazbank”	B2	Moody’s	5,173	60
PJSC “Rosbank”	Ba2	Moody’s	13,769	26,374
JSC “SMP bank”	ruA-	Expert RA	-	91
PJSC “Sovcombank”	Ba3	Moody’s	-	1
Cash on hand			68	32
* State-controlled banks			<b>318,191</b>	<b>1,362,307</b>

All balance of cash are denominated in rubles as at 30 June 2018 and as at 31 December 2017.

As at 30 June 2018, the balance on the current account with JSC “AB Russia” represents cash in the form of a non-reducible balance is absent (as at 31 December 2017: RUB 961,000 thousand at 6.75-7.00% per annum).

## 16 Equity

	<u>Ordinary shares</u>	
	<u>30 June 2018</u>	<u>31 December 2017</u>
Par value (in RUB)	0.10	0.10
On issue at 1 January, units	42,217,941,468	42,217,941,468
On issue at the end of the period, fully paid, units	42,217,941,468	42,217,941,468

### (a) Dividends

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

At the annual general meeting of shareholders held on 8 June 2017 dividends for 2016 were declared in the amount of RUB 1,866,675 thousand. The amount of dividends was RUB 0.0442 per one ordinary share.

At the annual general meeting of shareholders held on 31 May 2018 dividends for 2017 were declared in the amount of RUB 879,028 thousand. The amount of dividends was RUB 0.0208212 per one ordinary share.

In six months 2018, the Company recovered unclaimed dividends for 2014 in the amount of RUB 7,548 thousand (in six months 2017: RUB 737 thousand – recovered unclaimed dividends for 2013).

## 17 Earnings per share

The calculation of basic earnings per share for the three and six months ended 30 June 2018 was based on the earnings attributable to ordinary shareholders for the three and six months 2018 in the amount of RUB 227,674 thousand and RUB 2,131,136 thousand (for the three and six months 2017: earnings of RUB 264,453 thousand and RUB 2,701,101 thousand), and a weighted average number of ordinary shares outstanding of 42,218 million for the three and six months 2018 (for the three and six months 2017: 42,218 million).

The Company has no dilutive financial instruments.

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	2018	2017
<i>In millions of shares</i>				
<b>Ordinary shares at 1 January</b>	42,218	42,218	42,218	42,218
<b>Weighted average number of shares for the period ended 30 June</b>	42,218	42,218	42,218	42,218
	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	2018	2017
Weighted average number of ordinary shares outstanding, for the period ended 30 June (millions of shares)	42,218	42,218	42,218	42,218
Earnings for the period attributable to holders of ordinary shares	227,674	264,453	2,131,136	2,701,101
<b>Earnings per ordinary share (in RUB) – basic and diluted</b>	<b>0.005</b>	<b>0.006</b>	<b>0.050</b>	<b>0.064</b>

## 18 Loans and borrowings

	<u>30 June 2018</u>	<u>31 December 2017</u>
<b>Non-current liabilities</b>		
Unsecured loans and borrowings	23,509,481	26,213,131
Unsecured bonds	14,979,450	15,265,247
Finance lease liabilities	-	695
Less: current portion of long-term loans and borrowings	(9,481)	(2,213,131)
Less: current portion of long-term bonds	-	(5,276,732)
	<b><u>38,479,450</u></b>	<b><u>33,989,210</u></b>
<b>Current liabilities</b>		
Finance lease liabilities	1,575	1,593
Current portion of long-term loans and borrowings	9,481	2,213,131
Current portion of long-term bonds	301,100	5,276,732
	<b><u>312,156</u></b>	<b><u>7,491,456</u></b>
<b>Including:</b>		
Debts on interest payable on loans and borrowings	9,481	13,131
Debts on interest payable on bonds	301,100	277,900
	<b><u>310,581</u></b>	<b><u>291,031</u></b>

All balances of loans and borrowings are denominated in rubles as at 30 June 2018 and 31 December 2017.

Balances with related parties are disclosed in Note 23.

For the six months ended 30 June 2018 the Group has attracted the following significant loans, borrowings and bonds:

	<u>Year of maturity</u>	<u>Nominal interest rate</u>	<u>Nominal value</u>
<b>Unsecured loans and borrowings</b>			
PJSC “Sberbank of Russia”*	2018 - 2021	7.40% - 8.05%	65,500,000
PJSC “Bank VTB”*	2021	7.49%	4,000,000
JSC “Bank GPB”*	2020 - 2021	7.60% - 7.75%	2,997,663
PJSC “Rosbank”	2020	7.49%	2,000,000
PJSC “Promsvyazbank”	2018	13%	14,529
Unsecured bonds	2021	6.95%	5,000,000
			<b><u>79,512,192</u></b>

\* Loans and borrowings received from companies related to the state

For the six months ended 30 June 2018 the Group repaid the following significant loans, borrowings and bonds:

	<u>Nominal value</u>
Loans and borrowings received from companies related to the state	77,197,663
Other loans and borrowings	14,529
Unsecured bonds	5,000,000
	<b><u>82,212,192</u></b>

## 19 Trade and other payables

	<u>30 June 2018</u>	<u>31 December 2017</u>
<b>Non-current liabilities</b>		
Trade payables	59,426	17,724
Other payables	90,137	30,300
<b>Total financial liabilities</b>	<b>149,563</b>	<b>48,024</b>
Advances from customers	1,176,662	875,331
	<b>1,326,225</b>	<b>923,355</b>
<b>Current liabilities</b>		
Trade payables	4,141,067	4,575,346
Other payables and accrued expenses	263,128	390,668
Payables to employees	1,826,824	1,777,592
Dividends payable	79,383	39,896
<b>Total financial liabilities</b>	<b>6,310,402</b>	<b>6,783,502</b>
Advances from customers	1,539,566	2,057,797
	<b>7,849,968</b>	<b>8,841,299</b>
<b>Taxes payable</b>		
Value-added tax	1,232,507	1,086,645
Property tax	446,550	365,766
Social security contributions	430,855	376,148
Other taxes payables	175,199	158,362
	<b>2,285,111</b>	<b>1,986,921</b>
	<b>10,135,079</b>	<b>10,828,220</b>

Long-term advances of customers include advances for services of technological connection to electric grids in the amount of RUB 931,020 thousand as at 30 June 2018 (as at 31 December 2017: RUB 636,003 thousand).

## 20 Financial risk and capital management

The Group's financial risk and capital management objectives and policies made in measuring fair values are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2017.

The fair values of financial assets and liabilities, together with carrying amount are as follows:

	Note	30 June 2018		Level of fair value hierarchy		
		Carrying amount	Fair value	1	2	3
Trade and other receivables	14	10,454,278	10,454,278	-	-	10,454,278
Financial assets at fair value through other comprehensive income	13	214,905	214,905	214,868	-	37
Short- and long-term loans and borrowings	18	(38,791,606)	(38,791,606)	-	-	(38,791,606)
Trade and other payables	19	(6,459,965)	(6,459,965)	-	-	(6,459,965)
<b>Total</b>		<b>(34,582,388)</b>	<b>(34,582,388)</b>	<b>214,868</b>	<b>-</b>	<b>(34,797,256)</b>

  

	Note	31 December 2017		Level of fair value hierarchy		
		Carrying amount	Fair value	1	2	3
Trade and other receivables	14	11,716,277	11,716,277	-	-	11,716,277
Available-for-sale financial assets	13	189,945	189,945	189,908	-	37
Short- and long-term loans and borrowings	18	(41,480,666)	(41,480,666)	-	-	(41,480,666)
Trade and other payables	19	(6,831,526)	(6,831,526)	-	-	(6,831,526)
<b>Total</b>		<b>(36,405,970)</b>	<b>(36,405,970)</b>	<b>189,908</b>	<b>-</b>	<b>(36,595,878)</b>

The carrying value of cash and cash equivalents approximates fair value at 30 June 2018 and 31 December 2017.

During the six months ended 30 June 2018, there was no transfer between the levels of the fair value hierarchy.

## 20 Financial risk and capital management (continued)

Reconciliation of the carrying amount of financial assets at fair value through other comprehensive income at the beginning and end of the reporting period is presented in the table below:

	<b>Financial assets at fair value through other comprehensive income</b>
<b>At 1 January 2018</b>	<b>189,945</b>
Change in fair value recognized in other comprehensive income	24,960
<b>At 30 June 2018</b>	<b>214,905</b>

## 21 Capital commitments

As at 30 June 2018, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment items for RUB 6,692,231 thousand inclusive of VAT (as at 31 December 2017: RUB 5,826,007 thousand inclusive of VAT).

## 22 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 insurable risks. The main business assets of the Group have insurance coverage in case of damage or loss 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 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 characterized by frequent 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 for 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 adequately provided for tax assets and liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions; the Group's position of compliance with tax, currency and customs legislation can be justified protected. However, the interpretations of the relevant authorities could differ and have an effect on these consolidated interim condensed financial statements if the authorities were successful in enforcing their interpretations.

New transfer pricing legislation came into force since 1 January 2012, which significantly changed the rules for transfer pricing, bringing them closer to the principles of the organization for economic cooperation and development (OECD), but also to create additional uncertainty in connection with practical application of tax legislation in individual cases.

## **22 Contingencies (continued)**

The practice of applying new rules on transfer pricing by tax authorities and laws is absent, since tax inspections for compliance with new rule of transfer pricing have recently begun. However, it is expected that transactions that are governed by transfer pricing rules will be subject to detailed verification, which could potentially have an impact on these consolidated interim condensed financial statements.

During the reporting period, the tax authorities continued the tax audit of the Group based on the results of operations for 2013-2015 years. The Group disputes a number of claims submitted by way of pre-trial appeal in the Federal Tax Services. In general, the Management believes that the Group has paid or accrued all taxes due to the law.

### **(c) Litigations**

The Group is a party to a number of litigations (both as a plaintiff and as respondent) arising in the ordinary course of business. In the opinion of Management, there are currently no outstanding claims or other claims that could have a material impact on the Group's results of operations or financial position and would not be recognized or disclosed in the consolidated interim condensed 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 continues to evolve, responsibilities of authorized Government bodies to oversee are being reconsidered. Potential environmental liabilities arise from changes in interpretations of existing legislation, lawsuits or changes in legislation can be assessed. In the opinion of management under the existing control system and under current legislation, there are no probable liabilities that could have a material adverse effect on the financial position, results of operations or cash flows of the Group.

## **23 Related party transactions**

### **(a) Control relationships**

Related parties are shareholders, affiliates and entities under common ownership and control of the Group, members of the Board of Directors and key management personnel of the Company. The Company's parent as at 30 June 2018 and 31 December 2017 was PJSC "Russian Grids". The final controlling party is the state represented by the Federal Property Management Agency, which owns a controlling stake in PJSC "Russian Grids".

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

Transactions with parent company, its subsidiaries and associates include operations with PJSC "Russian Grids", its subsidiaries and associates:

## 23 Related party transactions (continued)

	Amount of the transaction				Carrying amount	
	For the three months ended 30 June		For the six months ended 30 June		30 June 2018	31 December 2017
	2018	2017	2018	2017		
<b>Revenue, net other income, finance income</b>						
<b>Parent company</b>						
Net other income	195	195	390	390	-	-
<b>Entities under common control of the parent company</b>						
Sales of electricity and capacity	22	16	46	67	-	-
Rent	580	380	1,028	760	463	165
Other revenue	48,599	5,784	76,487	6,162	52,131	51,083
Net other income	88	14,269	88	14,269	-	-
	<b>49,484</b>	<b>20,644</b>	<b>78,039</b>	<b>21,648</b>	<b>52,594</b>	<b>51,248</b>

	Amount of the transaction				Carrying amount	
	For the three months ended 30 June		For the six months ended 30 June		30 June 2018	30 December 2017
	2018	2017	2018	2017		
<b>Operating expenses, finance costs</b>						
<b>Parent company</b>						
Expenses for services related to the organization of the functioning and development of the EEC	59,678	85,601	114,558	174,720	41,817	22,617
Technical supervision services	10,563	10,562	21,125	17,604	-	-
Other expenses	3,312	3,312	6,624	6,624	-	-
Interest expenses on financial liabilities recorded at amortized cost	349,050	415,350	759,800	826,150	224,000	277,900
<b>Entities under common control of the parent company</b>						
Electricity for sale	250	136	820	506	11	18
Electricity transmission services	4,318,285	4,222,969	8,606,466	8,430,533	824,495	854,789
Technological connection services	708	405	799	1,540	-	-
Rent	1,189	2,509	2,416	4,905	440	478
Other expenses	22,752	10,155	31,237	15,691	7,386	9,617
	<b>4,765,787</b>	<b>4,750,999</b>	<b>9,543,845</b>	<b>9,478,273</b>	<b>1,098,149</b>	<b>1,165,419</b>

Other revenue includes revenue from performing the functions of the sole Executive body of PJSC “IDGC of Center and Volga region” in the amount of RUB 27,440 thousand and RUB 55,017 thousand for the three and six months ended 30 June 2018 (for the three and six months ended 30 June 2017 nil).

## 23 Related party transactions (continued)

	Carrying amount	
	30 June 2018	31 December 2017
<b>Parent company</b>		
Loans and borrowings	10,213,163	15,265,247
<b>Entities under common control of the parent company</b>		
Advances given	31,290	27,119
Advances received	169,760	194,067
	<b>10,414,213</b>	<b>15,486,433</b>

As at 30 June 2018 and 31 December 2017, there is no debt to the parent company for the dividend payments.

### (c) Transaction with key management personnel

In order to prepare these consolidated interim condensed financial statements, the key management personnel are members of the Board of Directors, the management Board, General Directors of subsidiaries and other key management personnel.

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

The amounts of remuneration to key management personnel disclosed in the table represent the current period expenses for key management personnel reflected in employee benefits.

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	2018	2017
Short-term benefits	51,877	110,367	98,998	142,662
	<b>51,877</b>	<b>110,367</b>	<b>98,998</b>	<b>142,662</b>

As at 30 June 2018, the carrying amount of liabilities under defined benefit plans recorded in the consolidated interim condensed statement of financial position includes liabilities to key management personnel in the amount of RUB 15,025 thousand (31 December 2017: RUB 14,551 thousand).

### (d) Transaction with government-related entities

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

Revenues from state-controlled entities for the three and six months ended 30 June 2018 constitute 40% and 41% (for the three and six months ended 30 June 2017: 39% and 39%) of total Group revenues, including 42% and 43% (for the three and six months ended 30 June 2017: 40% and 40%) of electricity transmission revenues.

Electricity transmission services costs (including compensation of technological losses) for state-controlled entities for the three and six months ended 30 June 2018 constitute 65% and 62% (for the three and six months ended 30 June 2017: 63% and 63%) of total electricity transmission services costs.

Interest expenses for government-related entities account for 48% and 53% of the total interest expenses for the three and six months ended 30 June 2018 (for the three and six months ended 30 June 2017: 52% and 52%).

**23 Related party transactions (continued)**

As at 30 June 2018, the balance of cash and cash equivalents held with state-controlled banks is RUB 297,627 thousand (as at 31 December 2017: RUB 374,711 thousand).

Loans and borrowings received from state-controlled banks are disclosed in Note 18.

**24 Events after the reporting date**

Events after the reporting date, which should be reflected in the consolidated interim condensed financial statements for the reporting period, have not been identified.