

## Notes to the accounting balance sheet and P&L statement for 2016

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**Appendix:** notes to tables № 2.1 - №5.13, Appendix # 1 to the accounting balance sheet and P&L statement

## 1. General information on the Company

1.1.	Full name	Interregional Distribution Grid Company of Centre, Public Joint-Stock Company; TIN/CRR 6901067107/997450001
1.2.	Abbreviated name	IDGC of Centre, PJSC
1.3.	State registration (PSRN, date)	1046900099498 dated from 17.12.2004
1.4.	Principal place of business (legal address)	2nd Yamskaya, 4, Moscow, Russia, 127018
1.5.	Postal address	2nd Yamskaya, 4, Moscow, 127018
1.6.	Information on the authorised capital	The authorised capital of the Company equals to 4 221 794 thousand rubles
1.7.	Information on the participants	Total number of persons, recorded in the register of issuer's shareholders as of end date of the last reporting quarter: <b>14 292</b> Total number of nominees: <b>8</b>
1.8.	The Company's auditor	Full business name: <i>RSM RUS Ltd.</i> Abbreviated business name: <i>RSM RUS</i> Location: <i>4 Pudovkina street, Moscow 119285, Russia</i> TIN: <i>7722020834</i> PSRN: <i>1027700257540</i>

The main business activities of IDGC of Centre, PJSC are:

- Electric power transmission and distribution in 0.4-110 kV power grid;
- New connections to 0.4-110 kV power grid;
- Other services.

The main sales markets of the services provided by IDGC of Centre, PJSC and the Company's branches are 11 constituent entities of the Russian Federation, located in Central Federal District of the Russian Federation, in which IDGC of Centre, PJSC operates. These constituent entities include the Belgorod, Bryansk, Voronezh, Kostroma, Kursk, Lipetsk, Orel, Smolensk, Tambov, Tver and Yaroslavl regions.

IDGC of Centre, PJSC renders grid connection services to the following final applicants: individuals (private sector), legal entities (small, medium-sized, large business), territorial co-operating grid companies, budget companies.

Starting from 01 December 2016 IDGC of Centre took the functions of an electricity supplier of last resort in the service area of Joint Stock Company "Transservicenergo" in the cities of Nelidovo, Toropets, Andreapol and Western Dvina in the Tver region.

### Divisions and representative offices of the Company

Item #	Division name	Division location
1.	Division of IDGC of Centre, PJSC – "Belgorodenergo"	42 Preobrazhenskaya St., Belgorod, 308000, the Russian Federation

2.	Division of IDGC of Centre, PJSC – “Bryanskenergo”	35 Sovetskaya St., Bryansk, 241050, the Russian Federation
3.	Division of IDGC of Centre, PJSC – “Voronezhenergo”	2 Arzamasskaya St., Voronezh, 394033, the Russian Federation
4.	Division of IDGC of Centre, PJSC – “Kostromaenergo”	53 Mir Avenue, Kostroma, 156961, the Russian Federation
5.	Division of IDGC of Centre, PJSC – “Kurskenergo”	27 K. Marx St., Kursk, 305029, the Russian Federation
6.	Division of IDGC of Centre, PJSC – “Lipetskenergo”	33 50 let NLMK St., Lipetsk, 398001, the Russian Federation
7.	Division of IDGC of Centre, PJSC – “Oreleenergo”	2 Mir Square, Orel, 302030, the Russian Federation
8.	Division of IDGC of Centre, PJSC – “Tambovenergo”	23 Morshanskoe shosse, Tambov, 392680, the Russian Federation
9.	Division of IDGC of Centre, PJSC – “Smolenskenergo”	33 Tenisheva St., Smolensk, 214019, the Russian Federation
10.	Division of IDGC of Centre, PJSC – “Tverenergo”	1 Bebel St., Tver, 170006, the Russian Federation
11.	Division of IDGC of Centre, PJSC – “Yarenergo”	12 Voinov St., Yaroslavl, 150003, the Russian Federation

Average staffing number of IDGC of Centre in 2016 was 29 531 people.

Management bodies of the Company:

- General Meeting of Shareholders
- Board of Directors
- Management Board
- General Director

The Company’s Board of Directors performs general management of the Company’s activity, except for solution of issues referred to the competence of the General Meeting of Shareholders by the Federal Law “On Joint-Stock Companies” and the Company’s Articles of Association.

**Data on the members of the management and control bodies of IDGC of Centre:**

#	Full name	Title
1	2	3
<b>Board of Directors, elected by the Annual General Meeting of Shareholders of 08.06.2016 (Minutes # 01/16 of 09.06.2016)</b>		
1	Yury Nikolayevich Mangarov	Chairperson of the Board of Directors of IDGC of Centre, Deputy Chief of Staff of PJSC «Rosseti»
2	Oxana Vladimirovna Shatokhina	Deputy Chairperson of the Board of Directors of IDGC of Centre, Deputy General Director for Economy of PJSC «Rosseti»
3	Alexander Evgenyevich Bogashov	Member of the Board of Directors of IDGC of Centre, Deputy Director of Corporate Governance, Pricing Environment and Supervisory Work in the Fuel and Energy Industry Department of the Ministry of Energy of Russia
4	Oleg Yuryevich Isaev	Member of the Board of Directors of IDGC of Centre, Chairman of the Management Board, General Director of IDGC of Centre
5	Denis Alexandrovich Malkov	Member of the Board of Directors of IDGC of Centre, Head of Project Office of PJSC «Rosseti»

#	Full name	Title
6	Irina Borisovna Masaleva	Member of the Board of Directors of IDGC of Centre, Director of Perspective Development and Grid Connection Department of PJSC «Rosseti»
7	Maxim Mikhailovich Saukh	Member of the Board of Directors of IDGC of Centre, Head of Corporate Governance Office of Corporate Governance and Interaction with Shareholders and Investors Department of PJSC «Rosseti»
8	Denis Alexandrovich Spirin	Member of the Board of Directors of IDGC of Centre, Director for Corporate Governance of Representative Office of Prosperity Capital Management (Russian Federation) Ltd.
9	Roman Alexeyevich Filkin	Member of the Board of Directors of IDGC of Centre, Director of Representative Office of Prosperity Capital Management (Russian Federation) Ltd., power engineering, machine building
10	Alexander Viktorovich Shevchuk	Member of the Board of Directors of IDGC of Centre, Executive Director of Association of Institutional Investors
11	Natalia Ilyinichna Erpsher	Member of the Board of Directors of IDGC of Centre, Head of Organizational Development Office of Personnel Policy and Organizational Development Department of PJSC «Rosseti»
<b>Collegial Executive Body – Management Board from 28.05.2015 (Minutes of the Board of Directors # 12/15 of 29.05.2015)</b>		
1	Oleg Yuryevich Isaev	Chairman of the Management Board, General Director of IDGC of Centre
2	Alexander Viktorovich Pilyugin	Deputy Chairman of the Management Board, First Deputy General Director – Chief Engineer of IDGC of Centre
3	Inna Vitalievna Gromova	Member of the Management Board of IDGC of Centre, Deputy General Director for HR Management and Organizational Design of IDGC of Centre
4	Ivan Petrovich Kleymenov	Member of the Management Board, General Director - Director of the branch of IDGC of Centre - «Voronezhenergo»
5	Konstantin Alexandrovich Mikhailik	Member of the Management Board, First Deputy General Director of IDGC of Centre
6	Sergey Yuryevich Rumyantsev	Member of the Management Board, Adviser to General Director of IDGC of Centre
7	Lyudmila Alexeevna Sklyarova	Member of the Management Board, Chief Accountant - Head of Financial and Tax Accounting and Reporting Department of IDGC of Centre
<b>Chief Executive Officer – General Director (from 11.12.2012)</b>		
1	Oleg Yuryevich Isaev	Chairman of the Management Board, General Director of IDGC of Centre
<b>Audit Commission, elected by the General Meeting of Shareholders of 08.06.2016 (Minutes # 01/16 of 09.06.2016)</b>		
1	Svetlana Anatolyevna Kim	Chairperson of the Audit Commission of IDGC of Centre, Head of Internal Audit Office of Internal Audit and Control Department of PJSC «Rosseti»
2	Elena Stanislavovna Erandina	Member of the Audit Commission of IDGC of Centre, Chief Expert of Control and Expert Office of Internal Audit and Control Department of PJSC «Rosseti»
3	Sergey Vladimirovich Malyshev	Member of the Audit Commission of IDGC of Centre, Leading Expert of Investment Audit Section of Internal Audit Office of Internal Audit and Control Department of PJSC «Rosseti»
4	Oxana Alexeevna Medvedeva	Member of the Audit Commission of IDGC of Centre, Chief Expert of Control and Expert Office of Internal Audit and Control Department of PJSC «Rosseti»
5	Sergey Ivanovich Ochikov	Member of the Audit Commission of IDGC of Centre, Chief Expert of Internal Audit Directorate of PJSC «Rosseti»

## 2. General rules of the accounting reporting and short description of the main provisions of the accounting policy

Annual accounting statements of the company are prepared according to requirements of the legislation of the Russian Federation.

The business accounting of property, obligations and economic transactions is done on the basis of natural measuring instruments in money terms by the overall, continuous, documentary and interconnected recognition. Indicators of annual accounting records are resulted proceeding from a principle of importance for a financial standing estimation by all interested users.

The accounting statements data are presented in thousand rubles.

The accounting statements of the Company are prepared in accordance with applicable regulations of the Russian Federation on accounting and reporting, in particular, Federal Law dated 06.12.2011 # 402-FZ «About the business accounting», Provisions on conducting the business accounting and accounting reporting in the Russian Federation, approved by Order of the Ministry of Finance of the Russian Federation from 29.07.1998 # 34-n (with amendments and modifications), Provisions on the business accounting, approved by orders of the Ministry of Finance of Russia.

The Company's accounting policy is generated proceeding from assumptions that:

- assets and obligations of the Company exist separately from assets and obligations of proprietors and assets and obligations of other companies (the economic entity assumption);
- the Company will continue the activity in the foreseeable future and it does not have intentions and necessity of liquidation or essential reducing of activity and, hence, the obligations will be repaid when due hereunder (the accounting continuity assumption);
- the accounting policy adopted by the Company is applied in succession from one accounting year to another (assumption of sequence of application of accounting policy);
- facts of economic activities of the Company concern that accounting period in which they took place, irrespective of actual time of receipt or payment of the money funds connected with these facts (assumption of time definiteness of facts of economic activities).

**Prior period adjustments.** The Company made adjustments to the financial statements for 2015 in terms of comparable data for previous years, aimed at clarifying the balance sheet with structures and transmission devices under the concession agreement:

Balance sheet line name	Line code	2015		
		Before adjustment	After adjustment	Amount of adjustment
Fixed assets	1150	95 289 473	94 798 310	491 163
Machinery and equipment, structures and transmission devices under the concession agreement	1157	491 163 (part of line 1150)	491 163 (separate line)	491 163

thous.

The Company made adjustments to the financial statements for 2015 in terms of comparable data for the previous reporting period, aimed at clarifying the record of payment of wages of employees in the cash flow statement. These payments are recognized in the amount that includes, among other things, the amount of insurance contributions to state extra-budgetary funds:

Cash flow statement line name	Line code	2015		
		Before adjustment	After adjustment	Amount of adjustment
In connection with payment of wages of employees	4122	(13 743 908)	(17 242 766)	3 498 858
in connection with acquisition, creation, modernisation, reconstruction and preparation for use of non-current assets	4221	(11 918 604)	(12 036 610)	118 006

thous.

Other payments	4129	(5 983 219)	(2 366 355)	(3 616 864)
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**Fixed Assets.** Asset accounting is performed in accordance with RAS 6/01, approved by Order of the Ministry of Finance of Russia from 30.03.2001 # 26n (with amendments and modifications).

Items of fixed assets are accounted for at cost. The initial value of fixed assets acquired for a fee is recognized as the amount of actual expenses for acquisition, construction and manufacturing, with the exception of value added tax and other recoverable taxes (except for cases provided by the legislation of the Russian Federation). Fixed assets are stated at depreciated cost.

Depreciation is calculated with a straight-line method.

Items of fixed assets are not subject to depreciation, consumer properties of which over time do not change (such as land plots, natural resources sites); items of fixed assets, which are preserved and are not used in production, performance of works or provision of services, for administrative needs of the organization or to be given by the organization for payment for temporary possession and use or for temporary use including those used for implementation of the Russian Federation legislation on mobilization training and mobilization.

The terms of useful life of items of fixed assets recognized by the company are included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.3.2.

**Intangible Assets.** Intangible asset accounting is performed in accordance with RAS 14/2007, approved by Order of the Ministry of Finance of Russia from 27.12.2007 # 153n (with amendments and modifications).

Intangible assets are recorded at the actual (historical) value determined at the date of their acceptance to accounting.

Assets are accounted for as intangible assets from the date when it is shown in a condition suitable for use in the manner intended by management.

The actual (historical) cost of intangible assets shall be the amount calculated in terms of money equal to the amount of payment in cash or in another form, or the value of accounts payable, accrued or paid by the Company on acquisition, creation of the asset and providing conditions for use of the asset for intended purposes.

The terms of useful life of intangible assets recognized by the company in 2016:

Intangible Assets Group	Term of useful life (number of years) of items, taken onto the books
Exclusive rights on a trade mark	up to 10 years
Exclusive rights on computer programs, DB	up to 10 years
Other Intangible Assets	up to 10 years
R&D deliverables	5 years

The sum of depreciation charges on intangible assets is determined on the rates calculated proceeding from their original cost and term of useful use (straight-line method).

**Inventories.** Accounting of inventories is performed in accordance with RAS 5/01, approved by Order of the Ministry of Finance of Russia from 09.06.2001 # 44n (with amendments and modifications).

Methods of estimation of inventories:

Inventories are valued at cost of purchase. Write-off of inventories in production was carried out at average cost.

**Financial investments.** Financial investment accounting is performed in accordance with RAS 19/02, approved by Order of the Ministry of Finance of Russia from 10.12.2002 # 126n (with amendments and modifications).

As financial investments the Company recognizes assets which do not have material and physical form and are capable to provide economic benefits (income) in future in form of interest, dividends or increment of their value (in form of difference between selling price (redemption) and purchase value) as the result of their exchange, use at repayments of liabilities, increase of current market value.

Analytical accounting of financial investment is kept in frame of reference of long-term and short-term financial investments.

The financial investments on which the current market value may be determined ordinarily are reflected in the statements for later the reporting year at the current market value by means of adjustment of their appraisal on the previous accounting date. The mentioned adjustment is carried out by the Company quarterly.

The financial investments on which the current market value is not determined are recorded in the accounting at the initial value.

**Revenues.** The Company divides the revenues into revenues from ordinary activities and other revenues.

Revenues from ordinary activities are the receipts connected with rendering of services, accomplishment of works, from sale of goods and products to third party companies.

All income, which is not connected with realisation of works and services in ordinary activities, is recognized as other income. The revenue is recognized for the business accounting in the sum estimated in money terms, equal size of receipt of money funds and other property and (or) accounts receivable size.

**Expenses.** Expenses (costs) are recognized in the period in which they occur, regardless of when the actual cash payments and other forms of consumption (the assumption of time definiteness of facts of economic activity).

Costs, depending on the nature of costs and their relationship to the production process, are recorded in the costs structure of:

main production - manufacture, goods (works, services), which was the purpose of creation of the Company;

general production costs - costs of maintenance of main and auxiliary facilities of the Company (including administrative expenses of branches of SDCs);

general running costs - costs for the needs to manage the Company as a whole, not directly related to the production process.

**Cash Flow Statement. Cash equivalents and presentation of cash flows in the cash flow statement.** In accordance with RAS 23/2011, approved by Order of the Ministry of Finance of Russia from 02.02.2011 # 11n, the Company defines approaches for separating cash equivalents from other financial investments.

Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. These include bills with maturities of three months or less, short-term government securities and bank deposits with a maturity of 3 months or less.

Data on cash and highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value (hereinafter – the cash equivalents) are summarized in the statement of cash flows.

When generating a statement of cash flows under «Cash flows from operating activities» payments for wages of employees are recognized at cost, which includes, inter alia, sums subject

to deduction from the amount of compensation of employees (for example, the amount of taxes on personal income, payments writs).

***Segment Reporting.*** In accordance with RAS 12/2010, approved by Order of the Ministry of Finance of Russia from 08.11.2010 # 143n (with amendments and modifications).

The information of segments is included in the explanatory note to the accounting balance sheet and the profit and loss statement in table 5.13. and in Appendix #1.

The Company identifies its reporting segments based on the analysis of the organizational and management structure, specificity of activity, as well as an internal reporting system by geographical regions in which the activities are performed.

Segment disclosure is aimed to provide interested users of accounting statements of the Company with information, allowing to evaluate the sectoral specificity of its activities, its economic structure, and financial performance in selected areas of activity.

***Changes in accounting policy.*** No significant changes and amendments in the accounting policy in 2016 were made.

It is not planned to make significant changes in the accounting policy in 2017.

### **3. Disclosure of essential indicators in the statements**

#### **3.1. Information on transactions in foreign currency**

In the accounting period transactions in foreign currency were not performed.

#### **3.2. Information on inventories**

The information on inventories is included in the notes to the accounting balance sheet and the profit and loss statement in table 5.5.1.

In 2016 inventories were not pledged.

As at 31 December 2016 the reserve under decrease in value of tangible assets in the amount of 1 331 thous. RUB was created.

#### **3.3. Information on fixed assets**

Availability and flow of fixed assets for 2015-2016 are included in the notes to the accounting balance sheet and the profit and loss statement in table 5.3.1.

In the statements the fixed assets are recorded at depreciated cost (original/replacement cost less accumulated depreciation).

Changes of the value of fixed assets resulting from completion, retrofit, renovation and partial liquidation are included in 5.3.3 for 2015-2016.

On the off-balance account of the Company as of 31.12.2016 the leased fixed assets are registered, which are included in the notes to the accounting balance sheet and the profit and loss statement in table 5.3.4 and 5.12.

In accordance with the Company's accounting policy revaluation of fixed assets is not performed.

The Company does not have income yielding investments into tangible assets.

#### **3.4. Concession facilities**

In 2015 the Company entered into a concession agreement with the Administration of the Tambov region – a subject of the Russian Federation.

Ownership of facilities of the concession agreement belongs to the concession grantor (the Tambov region – a subject of the Russian Federation).

Concession operator (the Company) will perform activities (operate) using the facility of the concession agreement and the grantor undertakes to provide to the concession operator for a 20-year period ownership and use of the facility of the concession agreement for the performance of the given activities.

Concession operator (the Company) incurred the costs of creating the facility of the concession agreement in the amount of:

for 2015 - 875 983 thous. RUB.

for 2016 - 111 611 thous. RUB.

The facilities of the concession agreement were commissioned in the amount of:

in 2015 - 491 163 thous. RUB.

in 2016 - 496 431 thous. RUB.

For 2016 depreciation on the facilities of the concession agreement was accrued in the amount of 43 174 thous. RUB.

In 2016 the Company received a subsidy from the regional budget for reimbursement of construction of the facilities in the amount of 60 000 thous. RUB.

### **3.5. Information on intangible assets**

Availability and flow of intangible assets for 2015-2016 are included in the notes to the accounting balance sheet and the profit and loss statement in table 5.1.1.

### **3.6. Information on receivables and payables**

The structure of receivables is recorded in the notes to the accounting balance sheet and the profit and loss statement in table 5.6.1.

The structure of payables is recorded in the notes to the accounting balance sheet and the profit and loss statement in table 5.6.5.

As of 31.12.2016 a provision for doubtful debts in the amount of 13 655 518 thous. RUB was created.

Of these the reserve was accrued for the following activities:

10 347 961 thous. RUB for electric energy transmission;

2 561 952 thous. RUB for electric energy sale;

56 815 thous. RUB for grid connection;

688 790 thous. RUB for other types of activity.

Information on material disagreements is recorded in the notes to the accounting balance sheet and the profit and loss statement in table 5.6.4.

In accordance with paragraph 3.11.19 of the Accounting policy sums of advance made and received are recorded in the statements for a group of articles "Accounts receivable" and "Accounts payable", including the amount of VAT.

In the balance sheet balances of VAT on advances made and received on account 76 "Settlements with various debtors and creditors" are recorded in line 1260 "Other current assets" in terms of VAT on advances received and in line 1550 "Other liabilities" in terms of VAT on advances made, broken down into long-term and short-term liabilities.

### **3.7. Information on credits and loans**

**3.7.1.** Information on credits and loans is included in the notes to the accounting balance sheet and the profit and loss statement in tables 5.6.7, 5.6.8.

**3.7.2.** Debt of IDGC of Centre under credits and loans as at 31.12.2016 will be paid back within the following terms:

In the period from 2016 to 2020 the credits and loans in the amount of 43 292 585,12 thous. RUB (taking into account accrued interest) will be mature, including:

in 2017 – 3 987 585 thous. RUB (including % - 347 585 thous. RUB),

in 2018 – 17 405 000 thous. RUB,

in 2019 – 16 900 000 thous. RUB,

in 2020 – 5 000 000 thous. RUB.

The sum of free limits under acting credit contracts of the Company as at 31.12.2016 was 18 915 779,38 thous. RUB.

**3.7.3.** The cost of investment assets in 2016 included interest payable to the lender (creditor) in the amount of 306 697 thous. RUB.

**3.7.4.** Long-term loans include bonded loans in the amount of 20 000 000 thous. RUB, which were placed by the Company in 2015-2016. They will mature: in 2018 – 5 bln RUB, in 2019 – 10 bln RUB and in 2020 – 5 bln RUB.

### **3.8. Information on financial investments**

**3.8.1.** Financial investments are included in the notes to the accounting balance sheet and the profit and loss statement in tables 5.4.1(1), 5.4.1 (2), 5.4.2, 5.4.3.

IDGC of Centre does not have any encumbered securities and other financial investments.

### **3.9. Information on contingencies**

**3.9.1.** Contingencies of the Company are represented as the provision for future expenses, allowance for future holiday payment and allowance for the payment of remuneration for the year, and allowance for litigation.

Sum of contingencies, recognized in the reporting period, is recorded in the notes to the accounting balance sheet and the profit and loss statement in table 5.7.1.

In the course of its operational activities the Company is a party to litigation. For abortive trials where the Company acts as a defendant with a low degree of foreclosure in favour of the Company a valuation allowance for litigation was created.

Estimated date of execution of contingencies for abortive trials is less than 12 months and estimated liabilities for litigation are recorded in the balance sheet of IDGC of Centre as a current liability.

The Company did not recognize provisions for estimated liabilities at the balance sheet date in respect of claims, the probability of resolution of which is assessed, taking into account the availability of positive jurisprudence in favour of IDGC of Centre, as high.

**3.9.2.** Information on provisions of IDGC of Centre given and received is included in the notes to the accounting balance sheet and the profit and loss statement in table 5.8.

### **3.10. Information on income**

Income for the accounting year is included in the profit and loss statement separately on ordinary activities and under other income with breakdown by kinds and values.

Other income is included in the notes to the accounting balance sheet and the profit and loss statement in table 5.11.

### 3.11. Information on expenses

Expenses for the accounting year are included in the profit and loss statement separately on ordinary activities and on miscellaneous costs.

Expenses on ordinary activities broken down to elements of costs are included in the notes to the accounting balance sheet and the profit and loss statement in table 2.1.

Other costs are included in the notes to the accounting balance sheet and the profit and loss statement in table 5.11.

As at 31 December 2016 the Company recorded deferred expenses in “Other non-current assets” and “Other current assets” in the amount of 1 051 518 thous. RUB and 139 406 thous. RUB, respectively.

### 3.12. Information on related parties

In the notes the Company disclosed the information on the related parties.

Related parties are legal and (or) individuals capable of influencing the activities of the Company, or over which the Company is able to influence.

Related parties of the Company shall be persons possessing 20 percent and more of the votes in the supreme governing body of the Company; legal entities that are subsidiaries of the same company, which is a subsidiary of the Company itself; subsidiaries of the Company; members of the Board of Directors (Supervisory Board) of the Company; persons exercising powers of the chief executive officer, members of the collegial executive body of the Company, as well as other persons who, due to a predominant stake in the authorized capital, or in accordance with the contract are able to define decisions taken by the Company.

List of affiliates is available on the Company’s website at:

<https://www.mrsk-1.ru/information/affiliates/2016/>

**3.12.1.** Settlements on contractual obligations for services provided by affiliates to the Company in 2015:

Item #	Name of the organization - an affiliate	Service type	Total accounts payable (+) / receivable (-) as at 31.12.2014, thous. RUB	Amount of charges, thous. RUB	Maturity value, thous. RUB	Total accounts payable (+) / receivable (-) as at 31.12.2015, thous. RUB
1	JSC «Russian Grids» <sup>3</sup>	service on the operation and development of the distribution electric grid complex	20 201	404 029	404 097	20 133
2	JSC «Russian Grids» <sup>3</sup>	technical supervision of electric grid facilities	-	49 854	47 370	2 484

Item #	Name of the organization - an affiliate	Service type	Total accounts payable (+) / receivable (-) as at 31.12.2014, thous. RUB	Amount of charges, thous. RUB	Maturity value, thous. RUB	Total accounts payable (+) / receivable (-) as at 31.12.2015, thous. RUB
3	JSC «Russian Grids» <sup>3</sup>	parent support agreement services	-	5 373	-	5 373
4	OJSC «IDGC of North-West» <sup>1</sup>	electric grid facilities lease	-	25	21	4
5	OJSC «IDGC of Centre and Volga Region» <sup>1</sup>	grid connection services	(36)	-	-	(36)
6	OJSC «Lenenergo» <sup>1</sup>	settlements with suppliers and contractors for Fixed Assets	5 852	-	553	5 299
7	OJSC «FGC UES» <sup>1</sup>	electric energy transmission services	2 392 074	18 010 001	18 553 247	1 848 828
8	OJSC «FGC UES» <sup>1</sup>	grid connection services	(26 408)	3 859	11 120	(33 669)
9	OJSC «FGC UES» <sup>1</sup>	lease services	(4 516)	9 355	4 168	671
10	OJSC «FGC UES» <sup>1</sup>	construction and installation work	(907)	-	(907)	-
11	OJSC «FGC UES» <sup>1</sup>	electric energy transmission services under a contract of assignment	-	230 814	-	230 814
12	OJSC «ZRETO» <sup>1</sup>	overhaul	4 322	-	4 322	-
13	OJSC «ZRETO» <sup>1</sup>	purchase of inventories	-	34	34	-
14	OJSC «Yargorelectroset» <sup>2</sup>	electric energy transmission services	84 196	-	84 196	-
15	OJSC «Energetik» <sup>2</sup>	services in lodging and board	-	1 275	1 275	-
16	OJSC «Mobile GTES» <sup>1</sup>	services under the agency agreement	5 432	-	5 432	-
17	JSC Moscow Communication Center of the Electric Power Industry <sup>1</sup>	communication services	48	1 033	1 033	48
18	OJSC «NTC-POWER FGC UES» <sup>1</sup>	research and development	-	10 000	10 000	-
19	OJSC «NTC-POWER FGC UES» <sup>1</sup>	services for the organization to participate in chess tournament	-	90	90	-
20	LLC «IT Energy» <sup>1</sup>	service to maintain reference data	2 434	13 465	14 777	1 122
21	OJSC «YarEGC» <sup>2</sup>	electric energy transmission services	31 792	320 850	323 028	29 614
22	JSC «Tyumenenergo»	services to organize	-	2 384	2 384	-

Item #	Name of the organization - an affiliate	Service type	Total accounts payable (+) / receivable (-) as at 31.12.2014, thous. RUB	Amount of charges, thous. RUB	Maturity value, thous. RUB	Total accounts payable (+) / receivable (-) as at 31.12.2015, thous. RUB
		and hold the Interregional competitions for maintenance and repair staff of PJSC «Rosseti»				
23	JSC «Russian Grids» <sup>3</sup>	service on the operation and development of the distribution electric grid complex	20 201	404 029	404 097	20 133
24	JSC «Russian Grids» <sup>3</sup>	technical supervision of electric grid facilities	-	49 854	47 370	2 484
25	JSC «Russian Grids» <sup>3</sup>	parent support agreement services	-	5 373	-	5 373
26	OJSC «IDGC of North-West» <sup>1</sup>	electric grid facilities lease	-	25	21	4
27	OJSC «IDGC of Centre and Volga Region» <sup>1</sup>	grid connection services	(36)	-	-	(36)
28	OJSC «Lenenergo» <sup>1</sup>	settlements with suppliers and contractors for Fixed Assets	5 852	-	553	5 299
29	OJSC «FGC UES» <sup>1</sup>	electric energy transmission services	2 392 074	18 010 001	18 553 247	1 848 828
30	OJSC «FGC UES» <sup>1</sup>	grid connection services	(26 408)	3 859	11 120	(33 669)

<sup>1</sup> A legal entity which is a subsidiary of the same company, which is a subsidiary of the Company itself

<sup>2</sup> A legal entity which is a subsidiary of the Company

<sup>3</sup> The parent company of the Company

### 3.12.2. Settlements on contractual obligations for services provided by the Company to affiliates in 2015:

Item #	Name of the organization - an affiliate	Service type	Total accounts receivable (+) / payable (-) as at 31.12.2014, thous. RUB	Amount of charges, thous. RUB	Maturity value, thous. RUB	Total accounts receivable (+) / payable (-) as at 31.12.2015, thous. RUB
1	JSC «Russian Grids» <sup>3</sup>	provision of workplaces	-	920	920	-
2	JSC «Russian Grids» <sup>3</sup>	sale of inventories	25 168	59 514	84 682	-
3	OJSC «IDGC of Volga» <sup>1</sup>	emergency and restoration activities in the aftermath of a natural disaster at facilities of IDGC of Volga - Penzaenergo	-	1 148	1 148	-
4	OJSC «IDGC of South» <sup>2</sup>	emergency and restoration activities in the aftermath of a natural disaster at	1 817	12 181	12 220	1 778

		facilities of IDGC of South				
5	OJSC «IDGC of Centre and Volga Region» <sup>2</sup>	other settlements (shares)	1 423	11	397	1 037
6	OJSC «IDGC of Centre and Volga Region» <sup>2</sup>	other settlements (dividends)	-	12	12	-
7	OJSC «Lenenergo» <sup>2</sup>	the right to install fiber-optic lines at power facilities	-	553	553	-
8	OJSC «Kubanenergo» <sup>2</sup>	work on the technical, operational maintenance and repair of facilities owned by Kubanenergo	10 460	23 389	10 369	23 480
9	OJSC «FGC UES» <sup>2</sup>	property lease	-	1 989	1 843	146
10	OJSC «FGC UES» <sup>2</sup>	operational maintenance of electric grid equipment	-	5 998	5 906	92
11	OJSC «FGC UES» <sup>2</sup>	grid connection services	(1)	1	-	-
12	OJSC «FGC UES» <sup>2</sup>	metering device replacement	-	2	2	-
13	OJSC «FGC UES» <sup>2</sup>	other settlements (shares)	6 492	-	5 343	1 149
14	OJSC «FGC UES» <sup>2</sup>	other settlements (compensation for breach of property rights)	(167 010)	20 619	20 619	(167 010)
15	OJSC «FGC UES» <sup>2</sup>	other settlements (dividends)	-	11	11	-
16	OJSC «Yargorelectroset» <sup>1</sup>	% on the loan of monetary funds	2 199	1 906	4 105	-
17	OJSC «Yargorelectroset» <sup>1</sup>	service of providing the loan of monetary funds	92 000	-	92 000	-
18	OJSC «Yargorelectroset» <sup>1</sup>	other settlements	2 204 230	-	2 204 230	-
19	OJSC «Yargorelectroset» <sup>1</sup>	grid connection services	2 479	-	2 479	-
20	OJSC «Yargorelectroset» <sup>1</sup>	electric energy transmission services	3 744	-	3 744	-
21	OJSC «Yargorelectroset» <sup>1</sup>	treasury services	50	30	80	-
22	OJSC «Energy Service Company» <sup>1</sup>	% on the loan of monetary funds	21 072	-	-	21 072
23	OJSC «Energy Service Company» <sup>1</sup>	state duty	5	-	-	5
24	OJSC «Energy Service Company» <sup>1</sup>	service of providing the loan of monetary funds	161 600	-	-	161 600
25	OJSC «Energy Service Company» <sup>1</sup>	other settlements	100	-	-	100
26	OJSC «Energy Service Company» <sup>1</sup>	treasury services	216	-	-	216
27	OJSC «Energetik» <sup>1</sup>	motor vehicles lease services	-	8	8	-

28	OJSC «Energetik» <sup>1</sup>	% accrued on the loan	1	428	378	51
29	OJSC «Energetik» <sup>1</sup>	service of providing the loan of monetary funds	2 000	3 000	-	5 000
30	OJSC «Energetik» <sup>1</sup>	other settlements	30 710	-	15 355	15 355
31	OJSC «Energetik» <sup>1</sup>	dividends on shares	-	178	178	-
32	OJSC «YarEGC» <sup>1</sup>	maintenance of equipment	83	1 481	1 481	83
33	OJSC «YarEGC» <sup>1</sup>	electric energy transmission service	352	-	352	-
34	OJSC «YarEGC» <sup>1</sup>	non-residential premises rent	-	735	662	73
35	OJSC «YarEGC» <sup>1</sup>	grid connection services	-	-	30	(30)
36	OJSC «Nurenergo» <sup>2</sup>	contract of assignment	-	2	-	2
37	JSC «Ingushenergo» <sup>2</sup>	contract of assignment	-	157	-	157
38	JSC «Kalmenergosbyt» <sup>2</sup>	contract of assignment	-	21	-	21
39	PJSC «Dagestan Energy Retail Company» <sup>2</sup>	contract of assignment	-	8	-	8

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<sup>3</sup> The parent company of the Company

**3.12.3. Settlements on contractual obligations for services provided by affiliates to the Company in 2016:**

<b>Item #</b>	<b>Name of the organization - an affiliate</b>	<b>Service type</b>	<b>Total accounts payable (+) / receivable (-) as at 31.12.2015, thous. RUB</b>	<b>Amount of charges, thous. RUB</b>	<b>Maturity value, thous. RUB</b>	<b>Total accounts payable (+) / receivable (-) as at 31.12.2016, thous. RUB</b>
1	PJSC «Rosseti»3	service on the operation and development of the distribution electric grid complex	20 133	404 097	404 097	20 133
2	PJSC «Rosseti»3	technical supervision of electric grid facilities	2 484	49 854	49 854	2 484
3	PJSC «Rosseti»3	parent support agreement services	5 373	-	5 373	-
4	PJSC «Rosseti»3	services in organization of the treasury function in terms of the authorization and/or the execution of large-value payments	-	15 631	15 631	-
5	PJSC «Rosseti»3	Other settlements (dividends)	-	229 030	229 030	-
6	PJSC «IDGC of North-West»1	electric grid facilities lease	4	26	30	-
7	PJSC «IDGC of Centre and Volga Region»1	grid connection services	(36)	36	-	-
8	PJSC «Lenenergo»1	settlements with suppliers and contractors for Fixed Assets	5 299	-	553	4 746
9	PJSC «Lenenergo»1	services for organizing and conducting inter-regional competitions of professional skills	-	2 320	2 320	-
10	PJSC «FGC UES»1	electric energy transmission services	1 848 828	18 805 915	19 488 041	1 166 702

11	PJSC «FGC UES»1	grid connection services	(33 669)	5 044	1 710	(30 335)
12	PJSC «FGC UES»1	lease services	671	12 238	11 955	954
13	PJSC «FGC UES»1	electric energy transmission services under a contract of assignment	230 814	-	230 814	-
14	PJSC «FGC UES»1	electric energy transmission services under a contract of assignment	-	46 554	46 554	-
15	OJSC «ZRETO» 1	purchase of inventories	-	64	64	-
16	JSC «Sanatorium «Energetik» 2	services in lodging and board	-	1 599	1 599	-
17	JSC «Mobile GTES» 1	services under the contract of purchase and sale of power	-	54	16	38
18	JSC Moscow Communication Center of the Electric Power Industry 1	communication services	48	1 034	1 034	48
19	JSC «NTC-POWER FGC UES» 1	research and development	-	9 357	9 357	-
20	JSC «NTC-POWER FGC UES» 1	services for the organization to participate in chess tournament	-	50	50	-
21	LLC «IT Energy» 1	service to maintain reference data	1 122	13 465	13 465	1 122
22	LLC «IT Energy» 1	services for expansion and creation of the electric energy metering system at the retail market	-	2 507	2 278	229
23	JSC «YarEGC» 2	electric energy transmission services	29 614	396 250	390 697	35 167
24	JSC «YarEGC» 2	electric grid facilities lease	-	6 018	5 464	554
25	OJSC «ENIN named after G.M. Krzhizhanovskogo»1	R&D project work performance	-	19 966	19 966	-
26	JSC «FOCL-Conductor Administration»1	services to maintain reference data	-	926	840	86

27	JSC «FOCL-Conductor Administration» <sup>1</sup>	transfer of non-exclusive rights to a computer program under sublicensing agreements	-	127 674	127 674	-
28	JSC «FOCL-Conductor Administration» <sup>1</sup>	purchase of equipment requiring no installation (FOCL)	-	22 649	22 649	-
29	JSC «FOCL-Conductor Administration» <sup>1</sup>	services under the contract of commercial representation of the owner of power facilities	-	30	230	(200)

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### 3.12.4. Settlements on contractual obligations for services provided by the Company to affiliates in 2016:

Item #	Name of the organization - an affiliate	Service type	Total accounts receivable (+) / payable (-) as at 31.12.2015, thous. RUB	Amount of charges, thous. RUB	Maturity value, thous. RUB	Total accounts receivable (+) / payable (-) as at 31.12.2016, thous. RUB
1	PJSC «Rosseti» <sup>3</sup>	provision of workplaces	-	920	920	-
2	PJSC «IDGC of South» <sup>2</sup>	emergency and restoration activities in the aftermath of a natural disaster at facilities of IDGC of South	1 778	-	1 778	-
3	PJSC «IDGC of Centre and Volga Region» <sup>2</sup>	emergency and restoration activities in the aftermath of a natural disaster at facilities of IDGC of Centre and Volga Region	-	20 887	-	20 887
4	PJSC «IDGC of Centre and Volga Region» <sup>2</sup>	other settlements (shares)	1 037	396	756	677
5	PJSC «IDGC of Centre and Volga Region» <sup>2</sup>	other settlements (dividends)	-	33	33	-
6	PJSC «Lenenergo» <sup>2</sup>	the right to install fiber-optic lines at power facilities	-	553	553	-
7	PJSC «Kubanenergo» <sup>2</sup>	work on the technical, operational maintenance and repair of facilities owned by Kubanenergo	23 480	18 091	41 571	-

8	PJSC «FGC UES»2	property lease	146	1 793	1 790	149
9	PJSC «FGC UES»2	service for the use of places on the pole	6	165	163	8
10	PJSC «FGC UES»2	operational maintenance of electric grid equipment	86	1 026	1 026	86
11	PJSC «FGC UES»2	other settlements (compensation for breach of property rights)	(167 010)	-	-	(167 010)
12	PJSC «FGC UES»2	reconstruction of grids	-	-	3 797	(3 797)
13	PJSC «FGC UES»2	other income (interest on the monetary obligation Art.317.1 of the Civil Code of the Russian Federation)	-	3	-	3
14	PJSC «FGC UES»2	other settlements (shares)	1 149	2 803	-	3 952
15	PJSC «FGC UES»2	other settlements (dividends)	-	227	227	-
16	PJSC «FGC UES»2	sale of electric energy under the commission contract with JSC "CFR"	-	33	33	-
17	OJSC «Energy Service Company»1	% on the loan of monetary funds	21 072	-	-	21 072
18	OJSC «Energy Service Company»1	state duty	5	-	-	5
19	OJSC «Energy Service Company»1	service of providing the loan of monetary funds	161 600	-	-	161 600
20	OJSC «Energy Service Company»1	other settlements	100	-	-	100
21	OJSC «Energy Service Company»1	treasury services	216	-	-	216
22	JSC «Sanatorium «Energetik» 1	% accrued on the loan	51	600	600	51
23	JSC «Sanatorium «Energetik» 1	service of providing the loan of monetary funds	5 000	-	-	5 000
24	JSC «Sanatorium «Energetik» 1	other settlements (shares)	15 355	-	-	15 355
25	JSC «Sanatorium «Energetik» 1	dividends on shares	-	194	194	-
26	JSC «YarEGC»1	maintenance of equipment	83	1 343	1 308	118
27	JSC «YarEGC»1	other income (interest on the monetary obligation Art.317.1 of the Civil Code of the Russian Federation)	-	16	-	16
28	JSC «YarEGC»1	non-residential premises rent	73	792	783	82
29	JSC «YarEGC»1	grid connection services	(30)	47	17	-

30	OJSC «Nurenergo» <sup>2</sup>	contract of assignment	2	-	-	2
31	JSC «Ingushenergo» <sup>2</sup>	contract of assignment	157	-	-	157
32	JSC «Ingushenergo» <sup>2</sup>	state duty	-	6	-	6
33	JSC «Kalmenergosbyt» <sup>2</sup>	contract of assignment	21	-	-	21
34	PJSC «Dagestan Energy Retail Company» <sup>2</sup>	contract of assignment	8	-	-	8
35	PJSC «Dagestan Energy Retail Company» <sup>2</sup>	sale of electric energy under the commission contract with JSC "CFR"	-	3	3	-
36	JSC «FOCL-Conductor Administration» <sup>2</sup>	service of providing temporary limited use of the overhead power line	-	783	3 401	(2 618)
37	JSC «Ekaterinburgenergosbyt»	sale of electric energy under the commission contract with JSC "CFR"	-	1	1	-
38	PJSC «IDGC of North Caucasus»	sale of electric energy under the commission contract with JSC "CFR"	-	1	1	-
39	JSC «APBE»	sale of electric energy under the commission contract with JSC "CFR"	-	1	1	-
40	JSC «Karachaevo-Cherkesskenergo»	sale of electric energy under the commission contract with JSC "CFR"	-	2	2	-
41	JSC «Kabbalkenergo»	sale of electric energy under the commission contract with JSC "CFR"	-	1	1	-
42	JSC «Chechenenergo»	sale of electric energy under the commission contract with JSC "CFR"	-	1	1	-
1	PJSC «Rosseti» <sup>3</sup>	provision of workplaces	-	920	920	-

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**3.12.5. Remuneration (salary, bonuses and other payments) of key management personnel of the Company for 12 months:**

Title	Number of employees	Amount*, thous. RUB	Number of employees	Amount*, thous. RUB
IDGC of Centre				

	2016		2015	
Employees classified as «Top managers»	30	243 618	32	284 024
Members of the Management Board	7	1 070	10	1 040
Members of the Board of Directors	11	7810	21	12 990
Members of the Audit Commission	5	793	3	1 350
Members of Committees under the Board of Directors	25	3055	35	2 983
<b>TOTAL</b>	<b>78</b>	<b>256 346</b>	<b>101</b>	<b>302 387</b>

\* the amount is shown, including accrued taxes and mandatory payments to the appropriate budgets and off-budget funds.

### 3.13. Information on segments

The information on segments is included in the notes to the accounting balance sheet and the profit and loss statement in table 5.13. and Appendix # 1.

For 2016 the Company received the revenue from OJSC "Belgorod Retail Company" (branch «Belgorodenergo») in the amount of 8 728 257 thous. RUB, which accounted for above 10% of the total revenue of the Company, including:

- revenue from electric energy transmission - 8 727 796 thous. RUB (including VAT - 1 331 359 thous. RUB);
- revenue from lease – 444 thous. RUB (including VAT - 68 thous. RUB);
- revenue from other services – 17 thous. RUB (including VAT- 3 thous. RUB).

### 3.14. Information on calculation of profit tax

Calculation of tax base following the results of 2016 was made on the basis of the tax accounting data. The taxable surplus for the accounting period is 5 720 243 thous. RUB, the profit tax estimated under the rate of 20% is 1 156 049 thous. RUB.

The transition from accounting income to taxable income for 2015-2016 is included in the notes to the accounting balance sheet and the profit and loss statement in table 2.3.

#	Indicator	thous. RUB	
		2015	2016
1.	<b>Profit (loss) before tax</b>	1 964 302	3 509 200
2.	<b>Permanent differences</b>	3 871 548	3 860 965
2.1.	Financial assistance, social benefits and other employees' benefits	1 264 719	1 272 477
2.2.	Revaluation of financial investments	(95 812)	(19 327)
2.3.	Recovery of provision of doubtful debts	213 999	165 671
2.4.	Recovery of provision under contingent liabilities	(476 716)	(28 468)
2.5.	Recovery of provision under depreciation of tangible assets	(11 561)	(4 305)
2.6.	Fixed Assets depreciation	782 029	746 013
2.7.	Profit of previous years	(548 094)	(321 747)
2.8.	Expenses of previous tax periods considered in previous tax periods on the basis of the specified declaration	1 179 853	1 006 110
2.9.	Expenses on charity	98 000	7 500
2.10.	Accounts receivable write-off	140 054	192 878
2.11.	Cultural and sports events	23 611	19 757
2.12.	Payments to the Board of Directors and Audit Commission	36 409	11 659
2.13.	Nonreimbursable VAT	70 321	76 461
2.14.	Deductions and payments to employees of trade-union committee	77 328	66 797
2.15.	Penalties, fines, liquidated damages, payments under settlement agreements	46 474	3 311

2.16.	Reserve on doubtful debts	(484 128)	333 287
2.17.	Reserve under contingent liabilities	444 673	31 073
2.18.	Reserve under write-down of tangible assets	7 696	4 352
2.19.	Reserve under write-down of financial investments	-	-
2.20.	Disposal of assets without income	106 002	39 231
2.21.	Other	996 691	258 235
3.	<b><i>Deductible temporary differences</i></b>	1 362 241	1 894 064
3.1.	Fixed Assets depreciation (the amount of depreciation for tax accounting is less than the sum of depreciation for business accounting)	130 998	151 057
3.2.	Provision for payment of annual compensation and annual leave	57 905	196 430
3.3.	Contingencies	1 173 186	1 539 405
3.4.	Other	152	7 172
4.	<b><i>Taxable temporary differences</i></b>	2 726 939	2 483 985
4.1.	Fixed Assets depreciation (the amount of depreciation for tax accounting is more than the sum of depreciation for business accounting)	2 400 917	2 152 103
4.2.	Other taxable temporary differences	326 022	331 882
	including interest on debt	274 810	306 576
	Total (sum of line 2 + sum of line 3 - sum of line 4)	2 506 850	3 271 044
	<b>TAX DECLARATION DATA</b>		
5.	Total profit (loss) under line 100 of Sheet 02 of the Tax declaration of current tax period	4 471 152	5 780 244
5.1.	Current profit tax	894 230	1 156 049
6.	Total full appreciated profit under the Tax declaration of previous tax periods	(975 085)	(2 176 620)
6.1.	Full appreciated profit tax of previous tax periods	(195 017)	(435 324)

The amount of the written off deferred tax asset was 69 904 thous. RUB, including:

- (5 051) thous. RUB – from liquidation of fixed assets, recalculation of accumulated tax assets of previous years due to recovery in the mobilization training costs for 2010-2012;
- 72 406 thous. RUB – from write off of assessed reserves;
- 2 549 thous. RUB – other.

The amount of written-off deferred tax liabilities was 271 895 thous. RUB, including:

- 252 434 thous. RUB – recalculation of tax liability for previous tax periods for fixed assets;
- 1 056 thous. RUB – from write-off or sale of protective special gear;
- 18 405 thous. RUB – recalculation of tax liability of previous years due to recovery in the mobilization training costs in 2011-2012 in the value of incomplete construction projects under tax accounting.

### **3.15. Information on participation in joint activity**

The Company did not participate in any joint activity.

### **3.16. Capital**

As at 31 December 2016 the authorized capital of the Company is completely paid for and consists of:

Name	Total quantity (pc.)	Nominal value (thous. RUB)
Common stocks	42 217 941 468	4 221 794
Preferred stocks	-	-
<b>Total</b>	<b>42 217 941 468</b>	<b>4 221 794</b>

The base earnings per share reflect a part of profit of the accounting period, which can be potentially distributed among shareholders – owners of common stocks. It is calculated as the relation of base profit for the accounting year to the weighted average quantity of common stocks in circulation within the accounting year. The base profit is equal to net profit of the accounting year. Earnings per share, diluted earnings per share are included in the notes to the accounting balance sheet and the profit and loss statement in table 2.2.

### 3.17. Cash flow statement

As at 31.12.2016 there are funds on deposits as follows:

Bank name	date	Until:	days	Amount (thous. RUB)	Interest (%)	Interest receivable (thous. RUB)
SMP Bank JSC	28.12.2016	10.01.2017	13	639 500	9,60%	2 185
PJSC VTB Bank	29.12.2016	10.01.2017	12	380 000	9,42%	1 176
PJSC VTB Bank	29.12.2016	12.01.2017	14	500 000	9,42%	1 806
SMP Bank JSC	29.12.2016	16.01.2017	18	500 000	9,60%	2 366
Bank GPB (JSC)	30.12.2016	16.01.2017	17	293 000	8,10%	1 105
Bank GPB (JSC)	30.12.2016	16.01.2017	17	7 000	8,10%	26

In the Cash Flow Statement, as collapsed, indirect taxes are reflected from buyers and customers, payments to suppliers and contractors and payments to the budget of the Russian Federation or the reimbursement out of it.

VAT is an indirect tax. The collapsed result on VAT in the amount of 661 244 thous. RUB is recorded in line 4119 «Other receipts»:

- VAT amount as received from buyers and customers is 14 003 101 thous. RUB (lines 4110, 4210)

- VAT amount as paid to suppliers and contractors and to the budget of the Russian Federation is 13 341 857 thous. RUB (lines 4120, 4220, 4320).

Taxes are recorded in line 4119 «Other receipts».

Information on cash flows from operating, investing and financing activities of each reportable segment is included in Appendix # 1.

### 3.18. Profit/loss of previous years

In accounting IDGC of Centre for previous reporting periods identified and recorded in 2016 as earnings from previous years the income in the amount of 321 747 thous. RUB, including:

- 151 321 thous. RUB – increase in income in previous periods for electricity transmission (of which the amount of 56 853 thous. RUB refer to the company PJSC "TNS energo Yaroslavl"; 39 503 thous. RUB refer to the company JSC "AtomEnergoSbyt"; 9 093 thous. RUB refer to the

company PJSC "TNS energo Voronezh"; 7 159 thous. RUB refer to the company LLC "Water Supply System"; 6 315 thous. RUB refer to the company Open Joint Stock Company "Lipetsk Energy Retail Company"; 5 682 thous. RUB refer to the company NPJSC "Lion Volochekenenergobyt") and under contracts to compensate for electricity losses in connection with the dispute resolution (of which the amount of 1 796 thous RUB refer to the company JSC "AtomEnergoSbyt"; 432 thous RUB refer to the company PJSC "TNS energo Voronezh");

- 34 021 thous. RUB – revenues arising from the recording of acts of non-contractual consumption;

- 39 545 thous. RUB – fines, penalties, liquidated damages, state duty;

- 53 975 thous. RUB – for electricity sale;

- 42 885 thous. RUB – other income.

In accounting IDGC of Centre for previous reporting periods identified and recorded in 2016 as losses of previous years the costs in the amount of 1 006 110 thous. RUB, including:

- 747 533 thous. RUB – increase in costs recorded in accounting of IDGC of Centre under electricity transmission contracts (of which the amount of 182 845 thous. RUB refer to the company JSC "AtomEnergoSbyt", 186 517 thous. RUB refer to the company PJSC "TNS energo Yaroslavl", 184 483 thous. RUB refer to the company Public Joint Stock Company "NLMK") and under contracts to buy electricity losses in connection with the dispute resolution (of which the amount of 8 358 thous. RUB refer to the company Open Joint Stock Company "Lipetsk Energy Retail Company", 7 241 thous. RUB refer to the company LLC "Tverenergobyt");

- 258 577 thous. RUB – other costs.

### **3.19. Other information**

#### **3.19.1. Information on the received provisions of the company's obligations and payments.**

The information on the received provisions of obligations of IDGC of Centre is included in the notes to the accounting balance sheet and the profit and loss statement in table 5.8.

#### **3.19.2. Assessment of the financial position of the Company**

<b>Indicator</b>	<b>31.12.2015</b>	<b>31.12.2016</b>
Current liquidity ratio	1,54	1,21
Acid ratio	1,38	1,07
Equity-assets ratio	0,48	0,47

One of the indicators of the company's financial standing is its solvency and liquidity, i.e. its ability to pay back its obligations in due time.

Following the results of 2016 the value of the current liquidity ratio was 1,21. Normative value of the ratio is considered equal to or greater than 1,00.

Acid ratio reflects the company's ability to pay back its current obligations in the shortest period of time. Normal value of the ratio is more than 0,8. Following the results of 2016 this ratio is within normal values and is 1,07.

Liquidity ratios are within normal values, indicating the ability of the company to pay back its current liabilities from current assets in due time.

Equity-assets ratio determines the share of the company's assets financed by equity. The higher the ratio is, the more financially stable and independent from external creditors the enterprise is. The generally accepted standard value for this indicator is 0,5. Following the results of financial and economic activity of IDGC of Centre for 2016 the equity-assets ratio varies within the regulatory limits.

### **3.20. Policy concerning management of risks**

In case of occurrence of one or several of the above mentioned risks IDGC of Centre will take all possible measures on minimisation of negative consequences. Possible events for Company actions are developed for neutralisation of a part of risks when this or that risk occurs. However, it is necessary to note that preliminary development of measures adequate to corresponding events is complicated by uncertainty of development of a situation, and parameters of conducted events will depend in a greater degree on features of the created situation in each specific case. IDGC of Centre cannot warrant that the actions directed on overcoming of arisen negative changes, can lead to the situation correction as the described factors are beyond the Company's control.

### **Industry risks**

In the Company's estimation, now deterioration of the situation in the industry can be connected with:

#### **Risks connected with state regulation of tariffs for services rendered**

Transmission of electric energy through distribution grids and also grid connection to electric networks are regulated by the State.

The State realizes the policy of containment of increase of tariffs on product and services of natural monopolies. Increase of tariffs for electricity transmission is limited with a rate, established by the forecast of socio-economic development of the Russian Federation for the relevant year (hereinafter - the Forecast) or specific scenario conditions of the economy of the Russian Federation functioning, approved by the Government of the Russian Federation.

Limiting the growth of tariffs for 2015 according to the Forecast is 7,5% from July 2015, or 3,8% on an annualized basis (tariffs for 2014 were «frozen»). In order to minimize "shortfall in income" from the implementation of Federal Law dated 06.11.2013 № 308-FZ, which provides for prolongation of the lease of the Unified National Power Grid facilities until 01.07.2017 with a phased reduction in payment for services on electric energy transmission of large industrial consumers connected to such facilities ("last mile" contracts), the tariffs for electricity transmission services for the Belgorod and Kursk regions were approved in excess of the Forecast of 2%.

From the second half of 2015 in the framework of implementation of the Governmental Resolution dated 11.05.2015 № 458 tariffs for electric power transmission to residential customers and similar consumers were revised upwards, as a result of which the Company's own revenues from the provision of electric energy transmission services grew up by 0,7 bln RUB.

Limitation of the growth of tariffs for electric power transmission services for 2016 according to the Forecast 7,5%.

In order to minimize "shortfall in income" from the reduced payment for HV-1 the tariffs for electricity transmission services in the Kursk region in 2016 were approved in excess of the limit at 5,5% (13% from 01.07.2016), in the Belgorod region - in excess of 4,9% under the maintenance rate (12,4% from 01.07.2016).

Implementation of Federal Law № 308-FZ in the subsequent years may result in deterioration of the financial position and reduction of the investment program of the Company.

The following measures are applied to minimize the risks:

1. Work with tariffs regulatory authorities of the Russian Federation subjects, the Ministry of Energy of the Russian Federation to ensure compensation of "shortfall in income" of grid companies, arising from the implementation of Federal Law № 308-FZ, by providing additionally to the Forecast of the Ministry of Economic Development the increase of tariffs for other customers and provision of subsidies from the federal budget.

2. On an ongoing basis, the work is done on the economic justification of costs included in rates, as well as on the inclusion of economically justified costs incurred in excess of recorded in tariff rates and not received income for reasons beyond the Company's control in prior periods.

3. Regular work on reduction of costs and investment program optimization is conducted.

4. Implementation together PJSC “Rosseti” of activities to amend the existing legislation of the Russian Federation in pricing for natural monopolies to take the interests of distribution grid companies in setting tariffs for electricity at the retail market into account.

#### **Risks of receiving less income than one is due, connected with payment discipline of retailers or decrease in the level of power consumption**

The main buyers of the Company’s services are retail companies, which carry out delivery of electric energy to end customers. The main risk is the probability of increase in the debt receivable in connection with:

- infringement of payment discipline by end customers of electric energy and occurrence of necessity of attraction of additional credit resources. In the given situation there is risk of insufficiency of money resources on the Company’s accounts in connection with presence of time cash breaks between receipt of money resources from retailers and necessity of financing of current operations.

- infringement of payment discipline by retailers, due to "off-target" use of funds, received from end customers, as well as long-term settlement of disputes by the courts in terms of services rendered.

The probability of the above risks occurrence is high.

For minimization of the probability of the given risks and their consequences, the management conducts work on the well-thought credit policy, on management of debt receivable directed to optimization of its amount and collection of debt. The Company also performs active claim-related work on overdue debt collection, implements policy of conclusion of direct contracts with electric power consumers.

As the proceeds are influenced by changes of power consumption of regions of the Company’s service area, there is risk of receiving less income than one is due in connection with decrease in electric power consumption by separate large consumers in relation to the target level. At present this risk probability is estimated as medium.

#### **Risks connected with shortage of qualified specialists in the industry**

At present inflow of qualified production personnel in the industry is reducing. Keeping the current inflow reduction rates the Company may confront with shortage of qualified production personnel in the regions of the service area. This risk is estimated as average within the long-term period with consequences for the Company’s activity varying from insignificant up to medium. For the purposes of minimization of this risk probability the Company performs the following measures:

- support of industry secondary special and higher vocational institutions in the regions of the service area, creation and financial support of implementation of programs on training of specialists in the field of the electric power industry with subsequent guaranteed employment of trained specialists;

- execution of programs intended to increase motivation and reduction of volumes of staff turnover, implementation of non-material motivation methods.

#### **Country and regional risks**

##### ***Country risks***

At the moment the sovereign rating of the Russian Federation has been downgraded due to the current economic situation and is at the level «BBB-» (in sovereign currency, Standard & Poor’s) – outlook «Negative», «BBB-» (Fitch) – outlook «Negative», and «Ba1» (Moody’s) – outlook «Negative». Financial problems or aggravated perception of risks of investment in the countries with a developing economy lowered the volume of foreign investments into Russia, caused an outflow of foreign capital, and rendered negative influence on the Russian economy. Besides, the Russian economy is especially vulnerable to changes of the world prices for natural

gas and oil. The transit of Russian gas to Europe through Ukraine also remains a problem. Dynamics of growth of prices for consumer products in the country remains to be a problem as well. The high key rate of the Central Bank of Russia significantly raised the cost of borrowing. All these events can limit access of the Company to the capital and render adverse influence on purchasing capacity of consumers of products. At present the Government of the Russian Federation is implementing its policy of containment of growth of tariffs for products and services of natural monopolies, this can result in shortage of financing of the Company's investment program.

Furthermore, in the medium term the legal basis of a set of measures to tackle the problem of cross-subsidization in the electric power industry is expected to change. Probability of these risks is estimated as high with consequences for the Company's activity varying from significant to severe. Within the framework of minimization of the foregoing risks the Company performs work on reduction of internal costs and optimization of the investment program as well as implements its well-thought-out policy in the field of taking out borrowed funds. Political risks are beyond the control of the Company because of their scale, but within the framework of their minimization the Company conducts active work with superior and regulating organizations in common interests of the industry development.

### ***Regional risks***

The Company carries out its activities in the Central Federal District of the Russian Federation, being an economically developed region of the country, the centre of financial and political activity. According to the Investment Rating of Regions of Russia 2016, prepared by the "Expert RA" Rating Agency, 6 out of 11 regions, which the Company's activity is connected with, are referred to the territories with moderate investment risks and various investment potential, five of the regions (Belgorod, Voronezh, Kursk, Lipetsk and Tambov regions) – to the regions with minimal investment risks.

The regional risks in the activity of the Company are as follows:

- disagreement of the authorized state tariff making bodies in part of economically proved costs declared by the Company for inclusion in the tariff;
- reduction of electric power consumption by large industrial enterprises of the regions.

The given circumstances can have essential influence on realization of the large-scale investment program of the Company, and their probability remains high. In order to decrease influence of regional risks on realization of the investment program, the Company on a constant basis cooperates with the state bodies and other stakeholders for the purpose of the control and management of the choice of stakeholders concerning their actions in connection with investment projects of the Company. The Company also performs activities on optimization of the investment program financing for the account of reduction of internal costs.

The main political risk of the Company's activity at the regional level is possible change of the government of regions with subsequent change of the then current model of relations. The main consequences for the Company's activity under these risks are: establishing a level of regional tariff lower than the economically grounded level, absence of support on the part of regional authorities for merger of municipal electric grid assets with IDGC of Centre.

At present probability of these risks is estimated as minimal with the consequences for the Company's activity from insignificant up to medium.

Within the framework of minimizing these risks the Company conducts constant work on compliance of the long-term programs of development of regions in the service area of activity of the Company's divisions with regional and local authorities as well as interacts actively with superior organizations on questions of activity in the regions.

Risks, connected with possible military conflicts, introduction of state of emergency and strikes in the country and regions in which the Company is registered as the tax bearer and/or carries out its primary activity. The probability of military conflicts and introduction of state of emergency in the country and in the regions of the service area of the Company is insignificant. In case of occurrence of possible military conflicts, the Company bears risks of its fixed assets

destruction. The risks, connected with geographical features of the country and region, in which the Company is registered as the tax bearer and/or carries out primary activity, including the raised danger of acts of nature, possible interruption of transport communication due to remoteness and/or inaccessibility.

Risks, connected with geographical features of the country and region, in which the Company is registered as the tax bearer and/or carries out primary activity, including the raised danger of acts of nature, possible interruption of transport communication due to remoteness and/or inaccessibility, etc. Geographic features of the region, in which the Company performs its activity, suppose risk of natural disasters within the autumn and winter period (AWP). These risks are estimated as high. The Company implements a complex of measures on preparing of the grid for autumn and winter period, each division is certified for readiness to AWP.

Constantly activities on reduction of time period, which is necessary for timely elimination of consequences of natural disasters during autumn and winter periods, are carried out.

The management on a mandatory basis submits to the Board of Directors reports on the preparation for the autumn-winter period, as well as reports on the outcome of the operation through the AWP.

### **Financial risks**

In the course of business, the Company is faced with factors that may lead to a shortage of funds for investment and operations. The most significant financial risk factors are associated with imperfect mechanisms of functioning of the retail electricity market and explained in the section "Industry risks". However, there are a number of risk factors potentially affecting the financial and economic activity as well.

### ***Inflation risks***

The negative impact of inflation on the financial and economic activity of the Company may be due to loss of real value of receivables, an increase in interest expense on borrowed capital, an increase in the cost of construction of items of the investment program, cost of materials, outsourced services necessary for operating activities that may have a negative impact on payment for shares of the Company.

Following the results of 2016 the consumer price index is 107,1, which is 8,4 percentage points lower than the level of 2015 and it indicates a decline in the degree of risk. The increase in inflation can lead to an unplanned increase in operating expenses of the Company.

In order to reduce the inflation risk, the Company conducts a policy aimed at optimizing operating costs in accordance with the Program of performance management and reduction of expenses and conclusion of long-term agreements with suppliers and contractors.

### ***Foreign currency risks***

Adverse changes in foreign currency exchange rates against the ruble may affect the operating and investment performance of the Company. Foreign exchange risk does not have any significant effect on the Company due to the fact that settlements are carried out exclusively with counterparties in the currency of the Russian Federation. However, given that the range of goods and equipment purchased by the Company contains imported components, a significant increase in the exchange rate may lead to higher prices for purchased products. In this connection, the Company has a policy aimed at import substitution and signing long-term agreements that do not provide for the growth of prices for purchased products.

### ***Interest rate risks***

Dynamics of changes in the refinancing rate of the Central Bank of the Russian Federation reflects the state of the macroeconomic situation in the economy and has impact on the cost of raising loans. Raising rates on loans can lead to an unplanned increase in the cost of servicing the debt of the Company.

In order to mitigate the interest rate risk, the Company pursues a balanced credit policy aimed at optimizing the structure of the loan portfolio and minimizing the cost of servicing the debt.

### ***Liquidity risks***

The Company's operations are subject to risks that may result in reduced liquidity and financial stability of the Company. The most important factors are cross-subsidies between consumer groups and a low payment discipline in the retail electricity market.

As a result of the implemented tariff policy by the state aimed at curbing the growth of tariffs for the population, the amount of cross-subsidization increases. The most significant proportion of cross-subsidies accounts for large consumers, with which "last mile" contracts have been signed. Moving large industrial customers to direct contracts with PJSC «FGC UES» contributes to the formation of "shortfall in income" of the Company.

Low payment discipline of contractors of the Company results in creation of a large amount of accounts receivable, including overdue. The main factors that contributed to the low payment discipline were disagreements over the customer contract demand in settlements with retail companies, and misuse of funds for electricity supplied by retail companies, deprived of the status of suppliers of last resort.

As a result of implementation of these risk factors the Company may be unable to meet the financial and other restrictive conditions specified in the loan agreements. In order to minimize this risk factor the Company monitors the capital structure and determines the optimal parameters of borrowing, as well as takes steps to optimize the structure of working capital.

The probability of the financial risk is estimated as low and is associated with the general economic situation in the country.

### **Legal risks**

Legal risk management is based on optimization of the process of legal registration of papers and support of the Company's operations. To minimize legal risks any business processes of the Company subject to risks pass obligatory legal examination, continuous monitoring of changes in legislation and judicial practice is carried out.

For the Company (as well as for all joint-stock companies, operating in the territory of the Russian Federation) there is a risk of changes in the legislation (federal laws and subordinate legislation) regulating economic relations.

Legal risks, in particular, connected with ambiguous treatment of norms of the legislation, can lead to incorrect calculation and payment of taxes, resulting in fines from the tax authorities. For their decrease the work is constantly performed on legitimate improvement of methods of calculation of tax base under various taxes and the control over their conformity with the current legislation.

Besides, there are risks connected with change of the laws, incorrect legal official registration of papers and support of activity of the Company. For minimization of such risks, the Company's operations pass obligatory preliminary legal examination.

The Company is subject to risks of the appeal by shareholders of large transactions and related-party transactions (at fulfillment of such transactions without appropriate preliminary approval by the Board of Directors or the General Shareholders Meeting, and also approved with infringement of the established order).

For minimization of the given risks at realization of contractual work, the preliminary legal analysis of concluded transactions for presence of the bases of carrying out of the preliminary corporate procedures stipulated by the current legislation of the Russian Federation and/or the Articles of Association of the Company is performed without fail. In case of need the corresponding transactions are submitted for consideration by the competent governance bodies of the Company.

For minimization of the risks connected with relations with shareholders (in particular, the risks "Reduction of the level of corporate governance", "Downgrade in the quotation list level, delisting", "Making a deal without the necessary approval/coordination of a transaction by the authorized management body" and "Risk of conflict of interests of shareholders") the Company carries out a complex of measures directed to information interaction with shareholders, investors and all interested parties, as well as full observance of legitimate rights and interests of the latter:

- holding regular meetings of the companies' management with shareholders and investors with a view to clarifying the existing issues of current activities,
- comprehensive disclosure of information provided by the legislation, as well as additional information voluntarily disclosed by the Company,
- integrated management of conflicts of interest of members of the Board of Directors and executive bodies,
- monitoring the level of corporate governance by independent experts (under the assignment/confirmation of a corporate governance rating),
- analysis of transactions made by the Company, identifying the need for their approval/coordination by management bodies, establishment of a methodology.

#### ***Risks, connected with change of tax laws***

Statutory acts regulating tax relations quite often contain indistinct formulations, or operate with the terms which do not have specific legal definition. Also official explanations of the Tax Code of Ministry of Finance of the Russian Federation and Federal Tax Service of the Russian Federation are not always available in the necessary volume.

The formation of rules and mechanisms of preparation and provision of the tax reporting are in the competence of the tax bodies having the right to make additional tax charges and tax collections charges, to charge the sums of fines, to impose significant penalties resulting in significant increase of tax risks. The Company in full observes the tax laws concerning its activity. In connection with the foregoing, the risk is assessed as insignificant.

In case of amending the operating order and conditions of the taxation, the Company is going to plan the financial and economic activity in view of these changes.

### **3.21. Information disclosure on the environmental activities of the Company**

The costs of environmental protection of IDGC of Centre for 2016 were 32 399 thous. RUB, including environmental payments for a negative impact on the environment in 2016 were 5417 thous. RUB.

In 2016 within the execution of the Program for the implementation of environmental policy, approved by the Board of Directors of IDGC of Centre 28.01.2016 (Minutes #01/16 of 29.01.2016), in order to reduce the negative impact on the environment, as well as the compliance with the requirements of environmental legislation of the Russian Federation IDGC of Centre carried out the following activities:

Based on SanPiN 2.1.7.1322-03 "Hygienic requirements for the placement and disposal of production and consumption waste" in IDGC of Centre's branches specialized containers for waste collection were purchased, the arrangement of sites for temporary storage (stockpiling) of waste and improvement of surrounding area was performed.

Based on SanPiN 2.2.1/2.1.1.1200-03 "Sanitary protection zones and sanitary classification of enterprises, buildings and other facilities" an instrumental control of emissions at the boundary of the sanitary-protection zones was performed.

Pursuant to Federal Law № 7-FZ of 10.01.2002 "On Protection of Environment" instrumental monitoring of compliance with established standards of maximum permissible emissions was performed. Development of design documentation (Maximum Permissible

Emission, Wastes Generation and Disposal Limits Book, Allowable Discharge Rate), equipping the HV power lines with special bird anti-collision devices.

To comply with Federal Law № 89-FZ of 24.06.1998 "On the Production and Consumption Waste" in 2016 work was carried out to determine the component composition of the waste and hazard classes, the acquisition of demercurization sets, transfer to specialized waste production organizations for further processing, recycling, disposal, control of soil pollution, purchase of absorbents and environmental converters of petroleum products.

As part of implementation of Federal Law of 21.02.1992 № 2395-1 FZ "Concerning Subsurface Resources" work was carried out to fulfill the license conditions to use subsoil for the extraction of groundwater, the instrumental quality control of extracted groundwater.

In order to implement the decisions of the Stockholm Convention (ratified by Federal Law of 27.06.2011 № 164-FZ) work was carried out to decommission and dispose of equipment containing polychlorinated biphenyls, which are included in the high-risk group for people and the environment of compounds, for which in the past years considerable efforts were made to control both at the national and international level.

### **3.22. Events after the reporting date**

There were no significant events after the reporting date.

### **3.23. Litigation**

There are no decisions on litigation, which entered into force in 2017, before signing the Company's accounting statements.

General Director

O.Y. Isaev

Chief Accountant

L.A. Sklyarova

27 February 2017