Interim Abbreviated

Consolidated Financial Statements of

***PJSC Lenenergo and its subsidiaries***

for three and six months ended

June 30, 2017

*August 2017*

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|  | **Note** | **June 30, 2017** | **December 31, 2016** |
| **Assets** |  | **(Not audited)** |  |
| **Long-term assets** |  |  |  |
| Intangible assets | 4 | 591 179 | 797 057 |
| Fixed assets | 5 | 208 739 564 | 206 789 180 |
| Advance payments for fixed assets construction |  | 1 169 395 | 1 550 717 |
| Long-term financial investments | 6 | 2 120 945 | 2 039 880 |
| Available-for-sale investments |  | 913 342 | 913 542 |
| Other long-term assets |  | 1 281 210 | 1 837 142 |
| **Total long-term assets** |  | **214 815 635** | **213 927 518** |
| **Short-term assets** |  |  |  |
| Cash and cash equivalents | 7 | 12 414 082 | 10 368 058 |
| Short-term financial investments | 6 | 31 410 | 68 767 |
| Accounts receivable | 8 | 4 189 040 | 4 542 613 |
| Supplies |  | 1 430 108 | 1 233 119 |
| Advance payment for income tax |  | 131 964 | 466 870 |
| Other short-term assets | 9 | 3 714 491 | 4 565 930 |
| **Total short-term assets** |  | **21 911 095** | **21 245 357** |
| **Total assets** |  | **236 726 730** | **235 172 875** |
| **Own capital and liabilities** |  |  |  |
| **Own capital attributed to the shareholders of the parent company** |  |  |  |
| Ordinary shares | 11 | 12 463 879 | 12 463 879 |
| Preference shares | 11 | 625 603 | 625 603 |
| Additional fund |  | 52 075 215 | 52 075 215 |
| Other reserves |  | 66 174 359 | 66 266 010 |
| Undistributed profit |  | 19 690 426 | 16 673 778 |
|  |  | **151 029 482** | **148 104 485** |
| Non-controlling interest |  | 244 198 | 236 369 |
| **Total own capital** |  | **151 273 680** | **148 340 854** |
| **Long-term liabilities** |  |  |  |
| Long-term loans and credits, except for the short-term portion | 12 | 30 865 884 | 23 450 208 |
| Deferred tax liabilities |  | 11 774 714 | 11 800 079 |
| Staff retirement plan liabilities |  | 470 499 | 453 921 |
| Other long-term liabilities | 13 | 5 543 944 | 7 584 519 |
| **Total long-term liabilities** |  | **48 655 041** | **43 288 727** |
| **Short-term liabilities** |  |  |  |
| Short-term portion of long-term loans and credits | 12 | 2 543 937 | 11 077 971 |
| Trade and other accounts payable | 14 | 17 032 580 | 17 615 796 |
| Reserves | 16 | 1 262 543 | 1 107 272 |
| Dividends payable | 11 | 1 890 647 | - |
| Income tax payable |  | 4 501 | 22 554 |
| Advance payments received from the clients | 15 | 14 063 801 | 13 719 701 |
| **Total short-term liabilities** |  | **36 798 009** | **43 543 294** |
| **Total liabilities** |  | **85 453 050** | **86 832 021** |
| **Total own capital and liabilities** |  | **236 726 730** | **235 172 875** |

Director R.N. Berdnikov

Chief Accountant G.V. Kuznetsova

August 22, 2017

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| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **For three months ended** | | | **For six months ended** | | |
|  |  | **June 30, 2017** | | **June 30, 2016** | **June 30, 2017** | | **June 30, 2016 (adjustment)** |
|  | **Note** | **Not audited** | | | | **Not audited** | | |
| Revenue | 17 | 14 716 638 | 12 981 162 | | 29 741 516 | | 25 780 375 |
| Operating expenses | 18 | (10 412 865) | (11 024 199) | | (22 817 345) | | (21 304 653) |
| **Operating profit** |  | **4 303 773** | **1 956 963** | | **6 924 171** | | **4 475 722** |
| Financial income | 19 | 229 106 | 617 886 | | 432 779 | | 1 365 688 |
| Financial expenses | 20 | (810 349) | (821 605) | | (1 659 416) | | (2 084 267) |
| **Profit/(Loss) before tax** |  | **3 722 530** | **1 753 244** | | **5 697 534** | | **3 757 143** |
| (Expenses) /revenues on income tax | 21 | (1 270 080) | (13 273) | | (870 942) | | (58 577) |
| **Net profit/(Loss)** |  | **2 452 450** | **1 739 971** | | **4 826 592** | | **3 698 566** |
| **Attributable to** |  |  |  | |  | |  |
| Shareholders of the parent company |  | 2 450 256 | 1 727 660 | | 4 818 763 | | 3 652 162 |
| Non-controlling interest |  | 2 194 | 12 311 | | 7 829 | | 46 404 |
|  |  |  |  | |  | |  |
| Profit /(Loss) attributable to an ordinary share – Basic and Diluted (in Russian rubles) | 22 | 0.29 | 0.20 | | 0.57 | | 0.43 |

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August 22, 2017

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **For three months ended** | **For six months ended** |
|  |  | **June 30, 2017** | **June 30, 2016** | **June 30, 2017** | **June 30, 2016 (adjustment)** |
|  | **Note** | **Not audited** |
| **Profit/(Loss) for the reporting year** |  | **2 452 450** | **1 739 971** | **4 826 592** | **3 698 566** |
|  |  |  |  |  |  |
| **Other consolidated (loss) / revenue** |  |  |  |  |  |
| *Other consolidated revenue not to be reclassified to profit or loss in subsequent periods:* |  |  |  |  |  |
|  |  |  |  |  |  |
| Actuarial (expenses) / revenues according to the plans with the defined payments |  | 12 851 | (16 750) | (3 899) | (33 499) |
| Effect of income tax |  | (2 571) | 3 350 | 779 | 6 700 |
| **Other consolidated (loss) / revenue after tax** |  | **10 280** | **(13 400)** | **(3 120)** | **(26 799)** |
|  |  |  |  |  |  |
| **Attributable to:** |  |  |  |  |  |
| Shareholders of the parent company |  | 10 280 | (13 400) | (3 120) | (26 799) |
| Non-controlling interest |  | **–** | – | **–** | – |
| **Total consolidated profit / (loss) after tax** |  | **2 462 730** | **1 726 572** | **4 823 472** | **3 671 767** |
|  |  |  |  |  |  |
| **Attributable to:** |  |  |  |  |  |
| Shareholders of the parent company |  | **2 460 536** | **1 714 260** | **4 815 643** | **3 625 363** |
| Non-controlling interest |  | **2 194** | **12 311** | **7 829** | **46 404** |

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August 22, 2017

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|  |  | | **Capital attributable to the shareholders of the parent company** | | | | | | |  | |
|  | | **Ordinary shares** | | **Preference shares** | **Additional fund** | **Valuation reserve** | **Undistributed profit** | **Total** | **Non-controlling interest** | | **Total capital** |
| **As at January 1, 2016** | | **12 439 792** | | **625 603** | **51 930 937** | **66 616 419** | **8 647 020** | **140 259 771** | **190 193** | | **140 449 964** |
| Profit for the period  (adjustment, note 3) | | **–** | | **–** | **–** | **–** | 3 652 162 | **3 652 162** | 46 404 | | **3 698 566** |
| Other consolidated loss after tax  (not audited) | | **–** | | **–** | **–** | **–** | (26 799) | **(26 799)** | **–** | | **(26 799)** |
| **Total consolidated revenue**  **(not audited)** | | **–** | | **–** | **–** | **–** | **3 625 363** | **3 625 363** | **46 404** | | **3 671 767** |
| Issue of ordinary shares | | 24 087 | | **–** | 144 279 | **–** | **–** | **168 366** | – | | **168 366** |
| Recovery of the revaluation reserve of the disposed fixed assets after tax (not audited) | | **–** | | **–** | **–** | (92 608) | 92 608 | – | **–** | | **–** |
| **As at June 30, 2016**  **(not audited)** | | **12 463 879** | | **625 603** | **52 075 216** | **66 523 811** | **12 364 991** | **144 053 500** | **236 597** | | **144 290 097** |
|  | |  | |  |  |  |  |  |  | |  |
| **As at January 1, 2017** | | **12 463 879** | | **625 603** | **52 075 216** | **66 266 010** | **16 673 778** | **148 104 486** | **236 369** | | **148 340 855** |
| Profit for the period  (not audited) | | **–** | | **–** | **–** | **–** | 4 818 763 | **4 818 763** | 7 829 | | **4 826 592** |
| Other consolidated loss after tax  (not audited) | | **–** | | **–** | **–** | **–** | (3 120) | **(3 120)** | **–** | | **(3 120)** |
| **Total consolidated revenue**  **(not audited)** | | **–** | | **–** | **–** | **–** | **4 815 643** | **4 815 643** | **7 829** | | **4 823 472** |
| Recovery of the revaluation reserve of the disposed fixed assets after tax (not audited) | | **–** | | **–** | **–** | (91 651) | 91 651 | **–** | **–** | | **–** |
| Dividends for the year 2016 | | **–** | | **–** | **–** | **–** | (1 890 647) | **(1 890 647)** | **–** | | **(1 890 647)** |
| **As at June 30, 2017**  **(not audited)** | | **12 463 879** | | **625 603** | **52 075 216** | **66 174 359** | **19 690 425** | **151 029 482** | **244 198** | | **151 273 680** |

Director R.N. Berdnikov

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August 22, 2017

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|  |  |
|  |  | **For six months ended** | | | | | | | | |
|  |  | **June 30, 2017** | | | | **June 30, 2016**  **(adjustment)** | | | | |
|  | **Note** | **Not audited** | | | | | | | | |
| **Operational cash** |  |  |  | | | | | | | |
| Profit/(loss) before tax |  | 5 697 534 | | | | 3 757 143 | | | |
|  |  |  | | | |  | | | |
| *Adjustments to compare profit before tax to net cash flows from operating activities:* |  |  | | | |  | | | |
| Loss from disposal of fixed assets and intangible assets |  | 130 605 | | | | 244 996 | | | |
| Financial income | 19 | (432 779) | | | | (1 365 688) | | | |
| Financial expenses | 20 | 1 659 416 | | | | 2 084 267 | | | |
| Depreciation of fixed assets | 5,18 | 6 264 488 | | | | 5 119 925 | | | |
| Amortisation of intangible assets | 4 | 206 333 | | | | 1 281 229 | | | |
| Net change of the reserve for the impairment of receivables | 10,18 | 110 291 | | | | 191 138 | | | |
| Non-cash settlement of technological connection to the grid | 17 | (1 246 505) | | | | (685 479) | | | |
| Net change of the reserve for the impairment of supplies |  | (5 842) | | | | 46 703 | | | |
| Net expenses on staff retirement plan with the defined payments |  | 25 129 | | | | 49 389 | | | |
| Net change of other reserves | 16 | 700 828 | | | | 628 014 | | | |
| **Cash flows from operating activities before the change in the current assets** |  | **13 109 498** | | | **11 351 637** | | |
| Increase/(decrease) of trade and other accounts payable |  | (1 000 825) | | | | (2 918 324) | | | |
| (Decrease)/increase of the received short-term advance payments |  | 344 100 | | | | (568 322) | | | |
| Increase/(decrease) of other long-term liabilities |  | (2 215 874) | | | | 899 984 | | | |
| Increase/(decrease) of accounts receivable |  | 1 626 780 | | | | (588 569) | | | |
| Increase of supplies |  | (191 147) | | | | 266 194 | | | |
| Increase/(decrease) of other long-term and short-term assets |  | 1 776 973 | | | | 1 158 291 | | | |
| **Cash flows from operating activities** |  | **13 449 505** | | **9 600 891** | | |
| Interest expenses |  | (1 549 907) | | | | (1 903 305) | | |
| Income tax paid |  | (678 476) | | | | (836 946) | | |
| Pension benefits paid |  | (12 450) | | | | (13 212) | | |
| Interest received |  | 389 071 | | | | 1 201 054 | | |
| **Net cash flows from operating activities** |  | **11 597 743** | | **8 048 482** | | |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  | **For six months ended** | | | | |
|  | |  | **June 30, 2017** | | **June 30, 2016**  **(adjustment)** | | | |
|  | | **Note** | **Not audited** | | | | |
| **Cash flows from investment activities** |  |  |  | | |
| Acquisition of fixed assets |  |  | (7 699 528) | | (6 535 381) | |
| Acquisition of intangible assets |  |  | (456) | | (19 002) | |
| Proceeds from closure of deposits |  |  | 70 389 844 | | 3 975 042 | |
| Proceeds from disposal of fixed assets |  |  | - | | 31 | |
| Cash in short-term deposits |  |  | (71 189 013) | | (107 450) | |
| **Net cash flows used in investment activities** |  |  | **(8 499 153)** | | **(2 686 760)** | |
| **Cash flows from financial activities** |  |  |  |  | | |
| Proceeds from issue of shares |  |  | - | 168 366 | | |
| Proceeds from credits and loans |  |  | 56 664 093 | - | | |
| Early repayment of long-term credits and loans |  |  | (45 580 919) | - | | |
| Repayment of short-term credits and loans |  |  | (12 134 766) | (9 000 000) | | |
| Dividends paid |  |  | (974) | - | | |
| **Total cash flows from financial activities** |  | **(1 052 566)** | | **(8 831 634)** | | |
| **Net increase/(decrease) of cash flows and** [**cash equivalents**](https://www.multitran.ru/c/m.exe?t=6732368_1_2&s1=%E4%E5%ED%E5%E6%ED%FB%E5%20%F1%F0%E5%E4%F1%F2%E2%E0%20%E8%20%E8%F5%20%FD%EA%E2%E8%E2%E0%EB%E5%ED%F2%FB) |  | **2 046 024** | | **(3 469 912)** | | |
| **Cash flows and** [**cash equivalents**](https://www.multitran.ru/c/m.exe?t=6732368_1_2&s1=%E4%E5%ED%E5%E6%ED%FB%E5%20%F1%F0%E5%E4%F1%F2%E2%E0%20%E8%20%E8%F5%20%FD%EA%E2%E8%E2%E0%EB%E5%ED%F2%FB) **at the beginning of the period** |  | 10 368 058 | | 26 146 040 | | |
| **Cash flows and** [**cash equivalents**](https://www.multitran.ru/c/m.exe?t=6732368_1_2&s1=%E4%E5%ED%E5%E6%ED%FB%E5%20%F1%F0%E5%E4%F1%F2%E2%E0%20%E8%20%E8%F5%20%FD%EA%E2%E8%E2%E0%EB%E5%ED%F2%FB) **at the end of the period** |  | **12 414 082** | | **22 676 128** | | |

Director R.N. Berdnikov

Chief Accountant G.V. Kuznetsova

August 22, 2017

1. General information about the Company

Public Joint Stock Company of power and electrification Lenenergo (further referred to as the Company) was founded on January 22, 1993 as a as the successor to the rights and liabilities of the former state company Lenenergo, production Association of power and electrification within the limits defined by the privatization plan dated December 22, 1992. On October 1, 2005 as a result of the restructuring of the Company by allocation of the production, sales and electric power distribution, the Company preserved the distribution network related to the transmission of electricity. Currently, the activities include electricity transmission and connection of new consumers to the networks.

As at June 30, 2017 the Group included the Company and its subsidiary joint stock companies:

* Joint stock company Lenenergospetsremont  (further referred to as JSC LESR) – 100%;
* Joint stock company Kurortenergo (hereinafter – JSC Kurortenergo) – 98.13%;
* Joint stock company Tsarskoselskaya Energy Company (further referred to as JSC TEC) – 96.95%;
* Joint stock company Power Service Company Lenenergo (hereinafter – JSC Power Service Company Lenenergo) – 100%;
* Joint stock company St. Petersburg Electric Networks (further referred to as JSC SPb EN) – 100%;
* Joint stock company Petrodvortsovaya Grid (hereinafter – JSC PG) – 88.70%;

hereinafter jointly referred to as the Group.

At the moment, the Group operates on the territory of St. Petersburg and the Leningrad Oblast.

Legal address of the Company: 196247, St. Petersburg, Constitution Sq., 1

The personnel number as at June 30, 2017 totalled 8,079 people (as at December 31, 2016 — 8,080 people).

Relationship with the State and the current legislation

The Group is controlled by the Public Joint Stock Company Rosseti (further referred to as PJSC Rosseti), which as at June 30, 2017 had 67.48% (December 31, 2016: 67.48%) of the share capital of the Group, including 67.48% (December 31, 2016: 67.48%) voting shares, which, in turn, are controlled by the state. The Group provides services to several companies controlled by the state or having a direct relation to the state. In addition, the state controls a number of the Group's suppliers.

The state has a direct influence on the Group's operations by regulating wholesale electricity sales through the Federal Antimonopoly Service (FAS) and retail sales of electrical energy through the Regional Energy Commission of St. Petersburg and Leningrad Oblast. The costs for electric energy transmission to consumers are determined on the basis of the normative regulation. The policy of the Government of the Russian Federation, St. Petersburg and Leningrad Oblast in the economic, social and other areas can have a significant impact on the financial and economic activities of the Group.

1. General information about the company (continuation)

***Financial position and liquidity***

For 6 months ended June 30, 2017 the Group received the net profit of 4 826 592 (for 6 months ended June 30, 2016: 3 698 566) and as at June 30, 2017 the short-term liabilities exceeded the current assets by 14 886 914 (December 31, 2016: 22 297 937).

In 2017, the Group continues the implementation of the “Plan of measures to increase the efficiency of activities and improve the economic and financial condition of PJSC Lenenergo” for the tasks, the deadline of which is extended to 2017 and the subsequent years, including:

* control of the tariff and balance decisions;
* settlement of disputes between the Group and related grid organisations operating on the territory of St. Petersburg and Leningrad Oblast;
* increase the effectiveness of the technological connection.

In 2017, there was developed and implemented the “Program to improve operating efficiency and reduce the expenses of PJSC Lenenergo”. The main directions are:

* increase the effectiveness of the process of maintenance management and repair of the equipment, current assets management, procurement management system, and energy efficiency;
* implementation of modern technologies and innovations;
* improvement of the organizational structure, system of motivation and staff remuneration.

The implementation of these programs ensures the achievement of the effect in the reduction of the investment costs per unit of the electrical equipment.

The management of Group believes that the implementation of the above measures enabled to improve significantly the Group's financial position and the results of its activities at the end of 2017.

These Consolidated Financial Statements have been prepared taking into account the principle of continuity, which assumes that the Group will continue operations in the foreseeable future and will be able to realize its assets and meet its liabilities as they become due for repayment.

1. Basis for preparation of the financial statements

2.1 Basis for preparation

These Interim Abbreviated Consolidated Financial Statements include the financial statements of PJSC Lenenergo and its subsidiaries as at June 30, 2017. The financial statements were prepared on the basis of the accounting data and financial statements, the record keeping and maintaining of which is carried out in accordance with the rules of accounting and financial reporting established by the legislation of the Russian Federation, through the adjustment and rearrangement of the accounting data required for the reflection of the financial position, results of the activities and cash flows in accordance with the International financial reporting standards (IFRS).

The Interim Abbreviated Consolidated Financial Statements for the periods of three and six months ended June 30, 2017 was prepared in compliance with IAS 34 “Interim Financial Reporting”.

The Interim Abbreviated Consolidated Financial Statements do not include all the data required to be disclosed in the Annual Financial Statements and should be considered together with the Annual Financial Statements of the Group as at December 31, 2016.

The Consolidated Financial Statements is presented in rubles and all the amounts are rounded to the thousandths values, except where indicated otherwise.

***Compliance statement***

These Interim abbreviated consolidated financial statements of the Group are prepared in accordance with IFRS.

Basis of consolidation

The Interim Abbreviated Consolidated Financial Statements of the Group include the financial statements of the Company and its subsidiaries as at June 30, 2017. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ends when the Group loses control over the subsidiary. The assets, liabilities, revenue and expenses of the subsidiary, the acquisition or disposal of which occurred during the year are included in the Profit and Loss Statement as of the date of receipt by the Control group and are recorded prior to the date of loss of the Group’s control over the subsidiary. The control is performed when the Group has the right to variable returns from investments or is exposed to the risk connected with its change and can affect the returns through its power over the investee. In particular, the Group controls an investee only if the following conditions are true:

* the Group has power over the investee (i.e. existing rights that give it the current ability to control the relevant activities of the investee)
* the Group has the right to variable returns from investments or is exposed to the risk connected with its change;
* the Group has the opportunity to use its power over the investee in order to influence the variable returns from investments.

1. Basis for preparation of the financial statements (continuation)

2.1 Basis for preparation (continuation)

Basis of consolidation (continuation)

When the Group has less than a majority of voting rights or similar rights in respect of the investee, the Group considers all the relevant facts and circumstances when assessing the presence of power over the investee.

* an agreement with other persons having voting rights in the investee;
* rights arising from other agreements;
* voting rights and potential voting rights belonging to the Group.

The group re-assesses the presence of control of the investee if the facts and circumstances indicate the changes in one or more of the three elements of control.

Profit or loss and each component of other consolidated revenue are attributed to the shareholders of the parent company of the Group and non-controlling interest even if that results in a deficit non-controlling interest balance. If necessary, the financial statements of subsidiaries are adjusted to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, capital, revenue, expenses and cash flows arising from transactions within the Group are fully eliminated on consolidation.

Change of participation share in subsidiaries without loss of control is accounted for as a capital transaction. If the Group loses control over a subsidiary it

* derecognises the assets and liabilities of the subsidiary (including the related goodwill)
* derecognises the book value of non-controlling interests;
* derecognises the cumulative currency differences recorded in the capital;
* recognises the fair value of the received compensation;
* recognises the fair value of any investment retained;
* recognises the surplus or deficit in profit or loss resulting from operations;
* reclassifies the share of the parent's company in components previously recognised to be a part of other consolidated revenue as a content of profit or loss or undistributed profit, in accordance with the specific requirements of IFRS, as if the Group had carried out direct disposal of the related assets or liabilities.

2. Basis for preparation of the financial statements (continuation)

2.2 New standards, interpretations and amendments to the existing standards and interpretations, applied by the Group for the first time

A number of new issued standards, amendments to the standards and interpretations have not yet entered into force and were not early applied by the Group during the preparation of these Consolidated Interim Abbreviated Financial Statements. The following standards may have a potential impact on the Group's operations:

* IFRS 16 “Leases” (comes into force for annual periods beginning on January 1, 2019 or after that date). The standard requires lessees to recognize assets and liabilities for most leases. For the lessees a few changes have been made to the current rules established by IAS 17 “Leases”. Early application is permitted in the case if the new standard IFRS 15 “Revenue from Contracts with Customers” was already applied, or applied simultaneously with IFRS 16.
* IFRS 9 “Financial Instruments: Classification and measurement» (comes into force for annual periods beginning on January 1, 2018 or after that date, early application is permitted). The standard introduces the new requirements for the classification and measurement of financial instruments, impairment and hedge accounting.
* IFRS 15 “Revenue from Contracts with Customers” (comes into force for annual periods beginning on January 1, 2018 or after that date, early application is permitted). The new standard introduces the basic principle that revenue should be recognized when transferring goods or services to the customer at the transaction price. Any discounts on the contract price should be attributed to separate elements of the contracts with customers. If the reward varies for some reason, minimum amounts should be recognised if they are not exposed to a significant risk of reversal. The expenses incurred to secure contracts with customers should be capitalized and amortised during the benefit period.

The group considers the impact of these standards on its consolidated financial statements and intends to adopt them for use after their entry into force.

1. Correcting errors

During the preparation of the financial statements for the year by December 31, 2016 the Group detected an error related to the financial data on accrual of depreciation in the Interim Consolidated Statements for the 1st half of 2016. The error was corrected by recalculating the comparative information for the first half of 2016, and making appropriate adjustments to the balances of assets, liabilities and undistributed profit as at June 30, 2016.

The book value reflected earlier as at June 30, 2016 in the amount of 192 965 723 is incorrect. The Group made a recalculation of data as at June 30, 2016 and the amount of depreciation for the reporting period increased by 1 794 473, which, consequently, led to a decrease in the book value. In the end, the book value of fixed assets is equal to 191 171 250.

In this regard, in the report on financial results as at June 30, 2016 the amount of undistributed profit was adjusted by 1 434 319 and the amount of deferred tax liabilities was adjusted by 360 154.

The effect of correcting the errors in the financial statements for the 1st half of 2016 is presented in the following tables:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Before adjustment** | **Correction of errors** | **After adjustment** |
| **Consolidated balance as at June 30, 2016** |  |  |  |
| Fixed assets | 192 965 723 | (1 794 473) | 191 171 250 |
| Undistributed profit | 13 845 714 | (1 434 319) | 12 411 395 |
| Deferred tax liabilities | 12 223 442 | (360 154) | 11 863 288 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Before adjustment** | **Correction of errors** | **After adjustment** |
| **Consolidated Profit and Loss Statement for six months as at June 30, 2016** |  |  |  |
| Operating expenses | (19 510 180) | (1 794 473) | (21 304 653) |
| Profit/(loss) before tax | 5 551 616 | (1 794 473) | 3 757 143 |
| Revenue/(expenses) on income tax | (418 731) | 360 154 | (58 577) |
| Net (loss)/profit for the period | 5 132 885 | (1 434 319) | 3 698 566 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Before adjustment** | **Correction of errors** | **After adjustment** |
| **Consolidated Capital Statement for six months as at June 30, 2016** |  |  |  |
| Undistributed profit as at January 1, 2016 | 8 647 020 | - | 8 647 020 |
| Total capital as at January 1, 2016 | **140 449 964** | **-** | **140 449 964** |
| Undistributed profit as at June 30, 2016 | 13 799 310 | (1 434 319) | 12 364 991 |
| Total capital as at June 30, 2016 | **145 724 416** | **(1 434 319)** | 144 290 097 |

1. Intangible assets

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Programme products** | **Access right** | **Revenue contracts** | **Goodwill** | **Total** | |
| **Cost** | **150 229** | **624 000** | **794 951** | **623 017** | **2 192 197** | |
| **As at January 1, 2017** |
| Acquisitions for the period | 456 | – | – | – | **456** | |
| Disposals for the period | (44 840) | – | (82 999) | – | **(127 839)** | |
| **As at June 30, 2017 (not audited)** | **105 845** | **624 000** | **711 952** | **623 017** | **2 064 814** | |
|  |  |  |  |  |  | |
| **Accumulated depreciation and**  **impairment** | |  |  |
| **As at January 1, 2017** | **(83 219)** | **(332 124)** | **(356 780)** | **(623 017)** | | **(1 395 140)** |
| Depreciation for the period | (27 485) | (10 400) | (168 448) | – | | **(206 333)** |
| Disposals for the period | 44 840 | – | 82 998 | – | | **127 838** |
| **As at June 30, 2017 (not audited)** | **(65 864)** | **(342 524)** | **(442 230)** | **(623 017)** | | **(1 473 635)** |
| **Residual value**  **as at January 1, 2017** | **67 010** | **291 876** | **438 171** | **–** | | **797 057** |
| **Residual value**  **as at June 30, 2017 (not audited)** | **39 981** | **281 476** | **269 722** | **–** | | **591 179** |

As at June 30, 2017 the Group tested the intangible assets for impairment. The impairment was not detected. (2016: impairment not detected).

With the acquisition of the subsidiaries of JSC SPb EN and JSC PG, the Group recognized as intangible assets the concluded revenue contracts including:

* Contracts for the maintenance of the electric grid facilities;
* Leasing contracts for electric grid facilities;
* Contracts on technological connection of applicants;
* Contracts for the provision of services for maintenance of street lighting.

The value of these intangible assets was determined by discounting the future net cash flows that will be received by the Group during the period of the above contracts. WACC was used as the discount rate.

As at December 31, 2016 the Group has tested goodwill for impairment. When testing for impairment the goodwill was fully distributed on the following units generating cash funds: JSC SPb EN - 605 570, JSC PG – 17 447 which showed a complete impairment when discounted the cash flows expected in future. As at December 31, 2016 the test for impairment was conducted by an independent appraiser. The evaluation used the data from the Management of future cash flows. The discount rate was equal to 12.36%. The impairment in the amount of 623 017 in 2016 was recognized as a part of the operating expenses of the Group.

1. Fixed assets

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Industrial buildings** | **Power lines** | **Equipment, power equipment, substations** | **Other** | **Construction in progress** | **Total** |
| **Cost** |  |  |  |  |  |  |
| **As at January 1, 2017** | **61 781 197** | **100 128 399** | **86 775 194** | **20 818 030** | **28 338 066** | **297 840 886** |
| Acquisitions | – | – | – | – | 8 345 475 | 8 345 475 |
| Disposals | (13 040) | (8 302) | (71 462) | (61 241) | (66 208) | (220 253) |
| Transfer between categories | 727 175 | 2 394 679 | 4 289 210 | 796 522 | (8 207 586) | – |
| **As at June 30, 2017  (not audited)** | **62 495 332** | **102 514 776** | **90 992 942** | **21 553 311** | **28 409 747** | **305 966 108** |
|  |  |  |  |  |  |  |
| **Accumulated depreciation and impairment** |  |  |  |  |  |  |
| **As at January 1, 2017** | **(10 625 873)** | **(48 236 432)** | **(20 006 571)** | **(10 290 691)** | **(1 892 139)** | **(91 051 706)** |
| Contributions for the period | (968 955) | (1 796 544) | (1 873 372) | (1 625 617) | – | (6 264 488) |
| Disposals | 4 735 | 4 909 | 47 731 | 32 275 | – | 89 650 |
| **As at June 30, 2017  (not audited)** | **(11 590 093)** | **(50 028 067)** | **(21 832 212)** | **(11 884 033)** | **(1 892 139)** | **(97 226 544)** |
|  |  |  |  |  |  |  |
| **Residual value as at January 1, 2017** | **51 155 324** | **51 891 967** | **66 768 623** | **10 527 339** | **26 445 927** | **206 789 180** |
| **Residual value as at June 30, 2017  (not audited)** | **50 905 239** | **52 486 709** | **69 160 730** | **9 669 278** | **26 517 608** | **208 739 564** |

1. Long-term and short-term financial investments

Short-term and long-term investments in the amount of 31 410 and 2 120 945 are presented as a discounted long-term loan (subordinated deposit) hosted in the Bank Tavrichesky (OJSC) at 0.51% per annum, maturing March 2035.

As at June 30, 2017 the Groups investments with interests amounted to 11 887 679 (December 31, 2016: 11 531 100).

Decoding of the deposits as at June 30, 2017 is presented below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Deposits in terms of maturity** | **Effective**  **interest rate** | **Maturity date** | **Amount in**  **thousand rubles** |
| Bank Tavrichesky (OJSC) | 0.51 | March 31,2035 | 10 620 000 |
| Impairment reserve |  |  | (8 499 055) |
| **Book value excluding reserve** |  |  | **2 120 945** |
| The amount of the accrued interest at an effective rate |  |  | 31 410 |
| **Book value excluding reserve** |  |  | **2 152 355** |
| *including* |  |  |  |
| Shown in the long-term assets |  |  | 2 120 945 |
| Shown in the short-term assets |  |  | 31 410 |

6. Long-term and short-term financial investments (continuation)

As at December 31, 2014 Bank Tavrichesky (OJSC) (further referred to as the Bank) had liquidity problems. On February 11, 2015 the Bank introduced a procedure of external administration: the functions of the interim administration were entrusted to the GC Deposit Insurance Agency (hereinafter – DIA). In accordance with the terms of participation DIA implements a set of measures to prevent bankruptcy of the Bank.

Currently, DIA has a complete control over the process of financial rehabilitation of the Bank. The Bank raised funds from the DIA which helps to improve financial performance and reduce risks of non-performance of its liabilities to the creditors. Analysis of the Bank’s financial activities and statistics over the past year indicates the levelling of negative tendencies that could affect the financial stability of the Bank in the future.

Despite the circumstances specified in the preceding paragraph, the Group's Management admits a probability of loss of funds on these financial investments, following the precautionary principle for the assessment of the probability of the Bank’s obligation default.

The amount of the discounting reserve as at June, 30 2017 was 8 499 055 (as at December 31, 2016: 8 580 120).

Interest revenue in the amount of 26 858 for the six months ended June 30, 2017 (6 months 2016: 26 933), was recognised as a part of the financial revenue.

1. Cash and cash equivalents

|  |  |  |
| --- | --- | --- |
|  | **June 30, 2017**  **(not audited)** | **December 31, 2016** |
| Balances in on-demand bank accounts in rubles | 4 773 843 | 2 048 573 |
| Cash in special accounts | 5 739 150 | 5 565 408 |
| Balances in the operating bank accounts in rubles and cash balances | 633 410 | 1 842 977 |
| Short-term deposits | 1 267 679 | 911 100 |
| **Total** | **12 414 082** | **10 368 058** |

During the six months ending June 30, 2017 the Group had deposit contracts with an initial term of less than 3 months with a number of banks under annual interest rates from 8.00% to 9.60%, and in the case of the Group’s maintenance of the minimum balance in the accounts it was from 6.5% to 8.5%.

In the framework of the recapitalization of PJSC Lenenergo in December 2015 the Federal loan bonds (FLB) were received from the main shareholder JSC "Rosseti" in the amount of 32 000 000. Funds from the sale of bonds in the amount of 11 025 000 and 6 000 000 were used to repay the loans and bonds in 2015 and 2016, respectively. In the context of fulfilment of liabilities under the Agreement with the Ministry of Energy of the Russian Federation (signed on December 30, 2015 and providing for the expenditure of trust funds in the amount of 14 975 000) PJSC Lenenergo in 2016 carried out measures on creation of the infrastructure for the implementation of technological connection. The balance of the trust funds in the special account as at June 30, 2017 was 4 048 257 (December 31, 2016: 257 4 048).

7. Cash and cash equivalents (continuation)

In accordance with the order of the Ministry of Energy of the Russian Federation as of September 28, 2016 No. 1009 in the first half of 2017 the Commission of the Ministry of Energy carried out an unscheduled field audit of the implementation of PJSC Lenenergo events on the objects included in the list and subject to construction and reconstruction under the Contract. According to the inspection results the inspection report was sent to PJSC Lenenergo containing information about penalties in case of non-performance of its obligations under the Contract. In accordance with the act the Group is required to pay a fine to the budget of the Russian Federation in the amount of 303 606. These fine expenses were included in the operating expenses of the Group.

1. Account receivable

|  |  |  |
| --- | --- | --- |
|  | **June 30, 2017**  **(not audited)** | **December 31, 2016** |
| Trade receivables excluding impairment reserve in the amount of 1 702 482 (2016: 1 691 670) *(Note 10)* | 3 260 302 | 3 575 314 |
| Other receivables excluding impairment reserve in the amount of 1 091 332 (2016: 1 108 073) *(Note 10)* | 928 738 | 967 299 |
| **Total** | **4 189 040** | **4 542 613** |

The amount of the impairment reserve of receivables are determined by the management based on the assessment of the creditworthiness of the specific customers, industry payment trends, subsequent receipts and settlements and analyses of the cash flows expected in the future. The Group conducts regular analysis of the ability of debtors to repay their payment obligations and establishes a reserve for impairment that represents the calculation of potential losses on trade and other receivables. The management believes that the Group will be able to realize the net receivable amount through direct repayment and non-cash netting, respectively, the book amount is not sufficiently different from their fair value. Information about the movement in the impairment reserve of receivables is disclosed in *Note 10*.

In respect of trade receivables and other receivables that are neither past due nor impaired as at the reporting date, the information that the debtors will not meet their payment obligations, is not available as the Group continuously monitors the creditworthiness of counterparties, and carries out periodical verification of the debt. Interests do not accrue on trade and other receivables, and it is usually repaid within the calendar year.

1. Other short-term assets

|  |  |  |
| --- | --- | --- |
|  | **June 30, 2017**  **(not audited)** | **December 31, 2016** |
| VAT recoverable | 2 466 608 | 3 426 102 |
| Prepayment and advances to suppliers excluding the impairment reserve in the amount of 1 157 270 (2016: 1 185 154) *(Note 10)* | 750 011 | 1 054 281 |
| Taxes receivable excluding income tax | 497 872 | 85 547 |
| **Total** | **3 714 491** | **4 565 930** |

Information about the changes of the impairment reserve of receivables on prepayment and advances to the suppliers is disclosed in *Note 10*.

1. Impairment reserve of receivables and advances paid

The changes of the impairment reserve of receivables are presented in the table below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Trade receivables** | **Advances to suppliers** | **Advances for fixed assets construction** | **Other receivables** | **Total** |
| **As at January 1, 2016** | **865 467** | **107 764** | **859 875** | **269 787** | **2 102 893** |
| Accrued for the year | 272 254 | 988 260 | – | 182 341 | **1 442 855** |
| Recovery of the reserve | (342 664) | (66 239) | (806 744) | (36 070) | **(1 251 717)** |
| Use of the reserve | (28 610) | (3 617) | (53 131) | (60 554) | **(145 912)** |
| **As at June 30, 2016  (not audited)** | **766 447** | **1 026 168** | **–** | **355 504** | **2 148 119** |
| **As at January 1, 2017** | **1 691 670** | **1 185 154** | **–** | **1 108 073** | **3 984 897** |
| Accrued for the year | 454 732 | 13 155 | **–** | 113 764 | **581 651** |
| Recovery of the reserve | (396 066) | (39 573) | **–** | (35 721) | **(471 360)** |
| Use of the reserve | (47 854) | (1 466) | **–** | (94 784) | **(144 104)** |
| **As at June 30, 2017  (not audited)** | **1 702 482** | **1 157 270** | **–** | **1 091 332** | **3 951 084** |

1. Capital

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Amount of issued and fully paid shares** | | **Share capital** | |
|  | **June 30, 2017**  **(not audited)** | **December 31, 2016** | **June 30, 2017**  **(not audited)** | **December 31, 2016** |
| Ordinary shares | 8 523 785 320 | 8 523 785 320 | 12 463 879 | 12 463 879 |
| Preference shares | 93 264 311 | 93 264 311 | 625 603 | 625 603 |
| **Total** | **8 617 049 631** | **8 617 049 631** | **13 089 482** | **13 089 482** |

Share capital

The nominal value of ordinary and preference shares is 1 ruble per share. Ordinary shares give their holders the right to vote, but do not guarantee the payment of the dividends.

Distributed profit

Distributed profit of all the companies in the Group is limited by the undistributed profit of each of them that is calculated according to the Russian accounting rules.

The undistributed profit of the Group calculated according to the Russian accounting rules as at June 30, 2017 amounted to 21 812 508 (December 31, 2016.: 18 836 098). Net profit calculated in compliance with RAS for 6 months ended June 30, 2017 amounted to 5 202 801 (net profit for 6 months ended June 30, 2016: 4 603 006).

**Dividends declared and paid**

For 6 months ended June 30, 2017 dividends were declared for the year up to December 31, 2016 in the amount of 8.107405 RUB per preferred share and RUB 0.1331 per ordinary share.

11. Capital (continuation)

Dividends declared and paid (continuation)

The total amount of dividends accrued in 2017 for the year up to December 31, 2016 amounted to 1 890 647 thousand rubles (for the six months ending June 30, 2016 no dividends were declared). As at June 30, 2017 dividends for the year 2016 have not been paid.

1. Credits and loans

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Currency** | **Effective interest rate** | **Maturity date** | **June 30, 2017**  **(not audited)** | **Effective interest rate** | **Maturity date** | **December 31, 2016** |
| Bank credits | RUB | 8.06%-8.75% | 2017-2020 | 30 904 777 | 8,06%-10,40% | 2017-2020 | 31 987 997 |
| Bonds issued by the Group: |  |  |  |  |  |  |  |
| Bonds lot BO-05 | RUB | 9.80% | 2017 | 2 505 044 | 13,00% | 2017 | 2 540 182 |
| **Total credits and loans** |  |  |  | **33 409 821** |  |  | **34 528 179** |
| Excluding short-term part of bank credits | RUB | 8.06%-8.75% | 2017 | (38 893) | 8,06-10,40% | 2017 | (8 537 789) |
| Bonds lot BO-05 | RUB | 9.80% | 2017 | (2 505 044) | 13,00% | 2017 | (2 540 182) |
| **Short-term part of the long-term debt** |  |  |  | **(2 543 937)** |  |  | **(11 077 971)** |
| **Long-term debt excluding the short-term part** |  |  |  | **30 865 884** |  |  | **23 450 208** |

Credits

As at June 30, 2017 the Group had free credit limits in the amount of 37 110 821 (December 31, 2016: 26 489 964), including under the Credit Contracts in form of overdraft in the amount of 1 848 717 (December 31, 2016: 1 801 340). Average interest rates according to these free limits as at June 30, 2017 amounted to 8.70% – 13.80% (December 31, 2016: 9.8% – 13.8%).

1. Other long-term liabilities

|  |  |  |
| --- | --- | --- |
|  | **June 30, 2017**  **(not audited)** | **December 31, 2016** |
| Long-term advances received | 5 460 339 | 6 958 103 |
| Long-term trade receivables | 83 605 | 626 416 |
| **Total** | **5 543 944** | **7 584 519** |

1. Trade and other receivables

|  |  |  |  |
| --- | --- | --- | --- |
|  | **June 30, 2017**  **(not audited)** | **December 31, 2016** |  |
| Trade receivables | 8 180 949 | 9 498 903 |  |
| Payables for acquisition of fixed assets | 4 279 100 | 4 430 016 |  |
| Wage arrears | 242 775 | 657 693 |  |
| Tax payables | 1 358 245 | 609 925 |  |
| Provision received (applications for participation in the competition) | 705 990 | 1 070 097 |  |
| Other receivables | 2 265 521 | 1 349 162 |  |
| **Total** | **17 032 580** | **17 615 796** |  |

1. Short-term advances received

|  |  |  |
| --- | --- | --- |
|  | **June 30, 2017**  **(not audited)** | **December 31, 2016** |
| Advances received under the contracts for technological connection | 13 578 534 | 13 624 211 |
| Other advances received | 485 267 | 95 490 |
| **Total** | **14 063 801** | **13 719 701** |

1. Reserves

The changes in the reserves for the reporting period are presented in the table below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Reserves for court**  **cases and claims** | **Reserves for unused vacations** | **Reserves for payment of annual remuneration** | **Reserves for tax risks** | **Total** |
| **As at January 1, 2016** | **1 380 620** | **128 774** | **422 756** | **282 663** | **2 214 813** |
| Accrued for the year | 545 707 | 251 800 | 155 278 | – | **952 785** |
| Use of the reserve | (1 010 406) | (174 969) | (4 805) | – | **(1 190 180)** |
| Recovery of the reserve | (76 789) | **–** | (247 982) | – | **(324 771)** |
| **As at June 30, 2016**  **(not audited)** | **839 132** | **205 605** | **325 247** | **282 663** | **1 652 647** |
| **As at January 1, 2017** | **745 125** | **154 404** | **207 743** | – | **1 107 272** |
| Accrued for the year | 310 623 | 287 351 | 111 703 | – | **709 677** |
| Use of the reserve | (312 094) | (222 521) | (10 942) | – | **(545 557)** |
| Recovery of the reserve | (8 849) | – | – | – | **(8 849)** |
| **As at June 30, 2017**  **(not audited)** | **734 805** | **219 234** | **308 504** | **–** | **1 262 543** |

1. Revenue

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **For three months ended** | | **For six months ended** | | |
|  | **June 30, 2017** | **June 30, 2016** | | **June 30, 2017** | **June 30, 2016** |
|  | **Not audited** | | | **Not audited** | |
| Grid power transmission | 13 291 076 | 12 096 783 | | 29 027 299 | 26 784 485 |
| Technological losses within the established norms (expected level) | (1 693 617) | (1 552 875) | | (4 755 461) | (4 783 746) |
| **Grid power transmission excluding normative (expected) losses** | **11 597 459** | **10 543 908** | | **24 271 838** | **22 000 739** |
| Technological connection to the grid | 2 641 168 | 1 641 610 | | 4 390 868 | 2 208 499 |
| Other revenues | 478 011 | 795 644 | | 1 078 810 | 1 571 137 |
| **Total** | **14 716 638** | **12 981 162** | | **29 741 516** | **25 780 375** |

In the 1st half of 2017 the revenue from grid power transmission before deduction of the normative (expected) technological losses from JSC St. Petersburg Sales Company and LLC RKS-Energo accounted to 21 811 285 (1st half of 2016: 19 959 173) and 2 038 437 (1st half of 2016: 2 443 058), respectively, which is 84% (1st half of 2016: 84%) of the total amount of revenues from grid power transmission before deduction of the normative (expected) technological losses.

Part of the services for technological connection in the amount of 1 246 505 (1st half of 2016: 685 479) was paid by the customers in the form of transfer of assets.

1. Operating expenses

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **For three months ended** | | **For six months ended** | | |
|  | **June 30, 2017** | **June 30, 2016** | | **June 30, 2017** | **June 30, 2016 (adjustment)** |
|  | **Not audited** | | | **Not audited** | |
| Expenses for transmission of electricity | 3 595 935 | 3 804 939 | | 8 072 222 | 8 050 037 |
| Depreciation of fixed assets | 3 141 921 | 3 467 877 | | 6 264 488 | 5 119 925 |
| Expenditure on wages and payroll taxes | 1 773 383 | 1 426 299 | | 3 607 365 | 3 037 663 |
| Taxes other than income tax | 357 707 | 358 855 | | 833 622 | 727 443 |
| Repair and maintenance | 392 824 | 422 477 | | 677 145 | 549 011 |
| Costs in the form of fines, penalties, forfeits | 356 956 | 28 241 | | 433 045 | 35 571 |
| Reserves for litigation and claims | 231 550 | 149 694 | | 301 774 | 468 918 |
| Raw materials | 98 050 | 87 971 | | 210 862 | 196 691 |
| Amortisation of intangible assets | 99 705 | 617 317 | | 206 333 | 1 281 229 |
| Rent expenditure | 107 989 | 175 943 | | 203 740 | 292 083 |
| Utilities payment | 54 117 | 56 164 | | 179 443 | 210 804 |
| Services of commercial accounting of electricity | 86 809 | 101 136 | | 174 594 | 175 457 |
| Expenses for private security | 63 212 | 60 457 | | 127 160 | 116 384 |
| Telecommunications and information services | 61 826 | 55 340 | | 120 684 | 84 463 |
| Reserves / (recovery of reserves) for impairment and write-off of receivables | (761 238) | 38 010 | | 110 291 | 191 138 |
| Expenditure on social services | 55 511 | 53 718 | | 100 349 | 102 678 |
| Consulting, legal and audit services | 35 311 | 32 269 | | 67 530 | 63 386 |
| Agency services | 25 464 | 29 301 | | 49 483 | 58 885 |
| Reserves / (recovery of reserves) for impairment of inventories | (636) | (29 555) | | (5 842) | 46 703 |
| Other operating expenses | 636 469 | 87 746 | | 1 083 057 | 496 184 |
| **Total** | **10 412 865** | **11 024 199** | | **22 817 345** | **21 304 653** |

1. Financial revenues

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **For three months ended** | | **For six months ended** | | |
|  | **June 30, 2017** | **June 30, 2016** | | **June 30, 2017** | **June 30, 2016** | |
| **Not audited** | | | **Not audited** | | |
| Interest receivable | 187 226 | 580 871 | | 350 892 | 1 292 605 | |
| Amortisation of the impairment of long-term investments | 41 058 | 37 015 | | 81 065 | 73 083 | |
| Other financial revenues | 822 | – | | 822 | – | |
| **Total** | **229 106** | **617 886** | | **432 779** | **1 365 688** | |

1. Financial expenses

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **For three months ended** | | **For six months ended** | | |
|  | **June 30, 2017** | **June 30, 2016** | | **June 30, 2017** | **June 30, 2016** | |
| **Not audited** | | | **Not audited** | | |
| Interest expenses on loans | 667 877 | 707 510 | | 1 362 711 | 1 426 201 | |
| Amortisation of discount on financial liabilities | 83 374 | 103 514 | | 175 354 | 340 728 | |
| Interest expenses on bonds | 58 644 | 5 613 | | 120 430 | 310 677 | |
| Other financial expenses | 454 | 4 968 | | 921 | 6 661 | |
| **Total** | **810 349** | **821 605** | | **1 659 416** | **2 084 267** | |

1. Income tax

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **For three months ended** | | | **For six months ended** | |
|  | **June 30, 2017** | **June 30, 2016** | **June 30, 2017** | | **June 30, 2016 (adjustment)** |
| **Not audited** | | **Not audited** | | |
| **Consolidated Profit and Loss Statement** |  |  |  | |  |
| **Current income tax** |  |  |  | |  |
| Current income tax expenses | 794 791 | 715 580 | 1 035 936 | | 1 148 162 |
| Recovery of the tax on the updated declarations | (11 087) | 232 467 | (140 354) | | - |
| **Deferred income tax** |  |  |  | |  |
| Related to the emergence and cancellation of temporary differences | 486 376 | (934 774) | (24 640) | | (1 089 585) |
| **(Revenue)/expense on income tax recognised in the Profit and Loss Statement** | **1 270 080** | **13 273** | **870 942** | | **58 577** |

Following is reconciliation between expenses on income tax and the accounting profit multiplied by the income tax rate:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **For three months ended** | | **For six months ended** | | |
|  | **June 30, 2017** | **June 30, 2016** | | **June 30, 2017** | **June 30, 2016** |
| **Not audited** | | | **Not audited** | |
| **Accounting profit/(loss) before tax** | **3 722 530** | 1 753 244 | | **5 697 534** | 3 757 143 |
| **Conditional (expense)/revenue on income tax at the rate of 20%** | **(744 506)** | (350 649) | | **(1 139 507)** | (751 429) |
| Expenses that do not reduce the taxable income | (536 661) | 569 843 | | 128 211 | 692 852 |
| Recovery of the tax on the updated declarations | 11 087 | (232 467) | | 140 354 | - |
| **(Revenue)/expense on income tax recognised in the Consolidated Profit and Loss Statement with the effective rate of 15.29%**  **(June 30, 2016: 2%)** | **(1 270 080)** | **(13 273)** | | **(870 942)** | **(58 577)** |

1. Earnings per share

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **For three months ended** | | **For six months ended** | | |
|  | **June 30, 2017** | **June 30, 2016** | | **June 30, 2017** | **June 30, 2016 (adjustment)** |
| **Not audited** | | | **Not audited** | |
| Weighted average number of outstanding ordinary shares, thousands | 8 523 785 | 8 500 502 | | 8 523 785 | 8 500 098 |
| **Net profit attributable to shareholders of the parent company** | **2 450 256** | **1 727 660** | | **4 818 763** | **3 652 162** |
| Profit /(Loss) attributable to an ordinary share – Basic and Diluted, in rubles | 0,29 | 0,20 | | 0,57 | 0,43 |

1. Commitments and contingencies

**Commitments to build the infrastructure for the technological connection**

The Group's commitment to implement the terms of the Agreement with the Ministry of Energy (implementation of measures on creation the infrastructure for the technological connection of a number of the Group’s customers) are disclosed in Note 7 "Cash and cash equivalents".

**Obligations under operating leases**

Obligations under operating leases primarily represent contractual obligations under long-term leases for office premises and land plots on which the power lines and the equipment of the Group are located. These leases are non-cancellable agreements that are concluded for periods ranging from 5 to 49 years with possibility of extension. The cost of the lease payments for the 1st half of 2017 in the amount of 206 333 (1st half 2016: 083 292) were reflected in the Profit and Loss Statement *(Note 18)*.

The following are the minimum lease payments for future periods under the operating lease contracts without the right of termination as at June 30, 2017:

|  |  |  |
| --- | --- | --- |
|  | **June 30, 2017**  **(not audited)** | **December 31, 2016** |
| For one year | 501 991 | 766 189 |
| For more than one year but less than five years | 2 937 300 | 3 420 588 |
| For more than five years | **–** | **–** |
| **Total** | **3 439 291** | **4 186 777** |

23. Commitments and contingencies (continuation)

Commitments for the acquisition of fixed assets

As at June 30, 2017 the upcoming capital expenditures for the signed contracts amounted to 15 991 108 (as at December 31, 2016: 16 555 389).

**The terms of the Group's pursuit of activities**

Russia continues economic reforms and development of its legal, tax and administrative infrastructure that would meet the requirements of a market economy. The stability of the Russian economy will largely depend on the progress of these reforms and the effectiveness of the Government’s intervention in the economy, financial and monetary policy.

In 2016, the negative impact on the Russian economy had a significant decline in crude oil prices and a significant devaluation of the Russian ruble and the sanctions imposed against Russia by some countries. The combination of these factors led to the reduced availability of capital, increased cost of capital, increase of inflation and uncertainty about economic growth that could in the future adversely affect the financial position, results of operations and economic outlook of the Group. The Group's management believes it is taking appropriate measures to support the sustainability of the Group in the current environment.

**Tax legislation**

Russian tax, currency and customs legislation allows various interpretations and subject to frequent changes. Management's interpretation of such legislation as applied to the transactions and activities may be challenged by the relevant regional and Federal authorities. Recent events in the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and tax examinations. As a result, tax authorities may make claims to those transactions and the accounting methods that they had not challenged yet. In this case, significant additional taxes, fines and penalties may be charged. To determine the amounts of claims on possible but not filed suits, as well as assessment of the probability of an unfavourable outcome is not possible. Tax audits may cover three calendar years immediately preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at June 30, 2017 the Group's management believes that the relevant provisions of the law are interpreted correctly, and that the position in terms of tax, currency and customs legislation adopted by the Group will not be challenged.

23. Commitments and contingencies (continuation)

**Issues of environmental protection**

The Group’s companies and their predecessors operated in the energy industry of the Russian Federation for many years. Currently in Russia the environmental legislation gets tougher and the position of state authorities of the Russian Federation concerning its enforcement is reviewed. The Group's subsidiaries periodically evaluate their liabilities related to the environmental pollution. Potential liabilities that may arise as a result of changes in the existing legislation, regulations and judicial practice cannot be estimated with sufficient accuracy although they can be significant. The management believes that in the current system of enforcement of existing environmental legislation there are no significant obligations related to the damage to the environment.

Insurance

The Group has limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks for which it does not have the insurance coverage.

**Legal proceedings**

The Group’s companies periodically act as parties to legal proceedings arising in the ordinary course of business.

In the opinion of the management, there is no other current legal proceeding or other claims outstanding, which in their final resolution could have a material adverse effect on the Group's financial position apart from those for which the reserves were created (*Note 16*).

1. Disclosure of information about the related parties

In these Consolidated Financial Statements the related parties are those one of which has the ability to control or exercise significant influence on the operating and financial decisions of the other party or is under the common control. When deciding whether the parties are related or not the nature of the relationship of the parties and not merely the legal form is taken into account.

As at June 30, 2017 and December 31, 2016 the Group had balances outstanding with the following related parties.

Balances on settlements with PJSC Rosseti and the companies under control of PJSC Rosseti

|  |  |  |
| --- | --- | --- |
|  | **June 30, 2017**  **(not audited)** | **December 31, 2016** |
| **Receivables from related parties including** |  |  |
| **Trade receivables** | **196** | **747** |
| PJSC Rosseti | 179 | **–** |
| JSC North-West power MC | 17 | 17 |
| PJSC IDGC of the North-West | **–** | 730 |
|  |  |  |
|  |  |  |
| **Long-term advances paid** | **16 025** | **20 698** |
| PJSC FGC UES | 16 025 | 20 698 |
|  |  |  |
| **Advances paid** | **47 578** | **45 164** |
| PJSC FGC UES | 44 868 | 45 160 |
| PJSC IDGC of Volga | 2 320 | **–** |
| PJSC Rosseti | 286 | **–** |
| PJSC MOESK | 100 | **–** |
| JSC Research Engineering Centre of IDGC | 4 | 4 |
|  |  |  |
| **Other receivables** | **366** | **634** |
| JSC North-West power MC | 188 | **–** |
| JSC Management of VOLS-VL | 173 | 631 |
| PJSC FGC UES | 3 | 3 |
| PJSC FTC | 2 | **–** |
|  |  |  |
| **Debt to related parties including** |  |  |
| **Short-term loans received** | **2 400 000** | **2 400 000** |
| PJSC Rosseti | 2 400 000 | 2 400 000 |
|  |  |  |
| **Interest on short-term loans received** | **105 044** | **140 182** |
| PJSC Rosseti | 105 044 | 140 182 |
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24. Disclosure of information about the related parties (continued)

|  |  |  |
| --- | --- | --- |
| **Trade accounts payable** | **3 785 300** | **4 595 099** |
| PJSC FGC UES | 3 648 293 | 4 240 008 |
| JSC North-West power MC | 61 204 | 69 938 |
| JSC RESEARCH ENGINEERING CENTER OF IDGC | 51 268 | 206 760 |
| JSC Management of VOLS-VL | 16 415 | 25 234 |
| PJSC Rosseti | 6 318 | 5 853 |
| LLC IT Energy Service | 1 775 | 1 528 |
| PJSC IDGC of the North-West | 27 | 27 |
| PJSC FTC | – | 36 640 |
| PJSC IDGC of Urals | – | 5 254 |
| PJSC IDGC of Centre and Volga Region | – | 3 857 |
|  |  |  |
| **Advances received** | **2 375** | **2 385** |
| PJSC FGC UES | 1 199 | 1 199 |
| PJSC IDGC of the North-West | 1 175 | 1 185 |
| PJSC North-West power MC | 1 | 1 |
|  |  |  |
| **Other long-term accounts payable** | **24 309** | **570 566** |
| PJSC FGC UES | 24 309 | 570 566 |
|  |  |  |
| **Other accounts payable** | **1 728 636** | **108 504** |
| PJSC Rosseti | 773 982 | – |
| PJSC FGC UES | 753 767 | 76 632 |
| PJSC IDGC of Urals | 169 860 | – |
| JSC RESEARCH ENGINEERING CENTER OF IDGC | 12 773 | 13 916 |
| JSC North-West power MC | 11 671 | 10 517 |
| PJSC FTC | 6 583 | 6 583 |
| JSC Management of VOLS-VL | – | 856 |
|  |  |  |
| **Reserve of forthcoming expenses on Federal loan bonds** | **–** | **7 283** |
| PJSC IDGC of the North-West | – | 6 817 |
| JSC Mobile gas turbine electric stations | – | 466 |
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24. Disclosure of information about the related parties (continued)

Operations with PJSC Rossseti and the companies under control of PJSC Rossseti

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **For three months ended** | | **For six months ended** | |
|  | **June 30, 2017** | **June 30, 2016** | **June 30, 2017** | **June 30, 2016** |
|  | **Not audited** | | **Not audited** | |
| **Rent revenue** | **42** | **–** | **84** | **–** |
| JSC North-West power MC | 42 | **–** | 84 | **–** |
|  |  |  |  |  |
| **Other revenues** | **1 782** | **1 315** | **2 237** | **1 770** |
| PJSC Rosseti | 456 | 456 | 911 | 911 |
| PJSC FGC UES | 851 | **–** | 851 | **–** |
| PJSC IDGC of the North-West | 470 | 859 | 470 | 859 |
| JSC Real estate of JSC Engineering Centre UES | 5 | **–** | 5 | **–** |
|  |  |  |  |  |
| **Revenue from equity participation in other organizations** | **190** | **–** | **190** | **–** |
| JSC North-West power MC | 188 | **–** | 188 | **–** |
| PJSC FTC | 2 | **–** | 2 | **–** |
|  |  |  |  |  |
| **Consulting services** | **22 241** | **20 396** | **44 482** | **40 792** |
| PJSC Rosseti | 22 241 | 20 396 | 44 482 | 40 792 |
|  |  |  |  |  |
| **Expenses for power transmission** | **1 880 260** | **1 746 365** | **3 825 989** | **3 625 191** |
| PJSC FGC UES | 1 880 260 | 1 746 365 | 3 825 989 | 3 625 191 |
| **Rent** | **603** | **83** | **803** | **167** |
| ОАО «ФСК ЕЭС» | 603 | 83 | 803 | 167 |
|  |  |  |  |  |
| **Services for the maintenance and repair of the equipment** | **12 904** | **8 648** | **12 904** | **12 958** |
| PJSC North-West power MC | 12 904 | 8 648 | 12 904 | 12 958 |
|  |  |  |  |  |
| **Services for the technological connection to the grids** | **6 703** | **273** | **8 990** | **369** |
| PJSC FGC UES | 6 703 | 273 | 8 990 | 369 |
|  |  |  |  |  |
| **Services for technical supervision** | **5 247** | **–** | **11 220** | **5 247** |
| PJSC Rosseti | 5 247 | – | 11 220 | 5 247 |
|  |  |  |  |  |
| **Other operating expenses** | **298 360** | **68 401** | **433 252** | **242 217** |
| PJSC FGC UES | 217 726 | **–** | 329 838 | 164 067 |
| JSC North-West power MC | 68 511 | 64 244 | 85 844 | 71 152 |
| JSC RESEARCH ENGINEERING CENTER OF IDGC | 237 | – | 254 | **–** |
| PJSC Rosseti | 242 | 46 | 242 | 46 |
| JSC Management of VOLS-VL | 10 140 | 2 168 | 13 604 | 3 220 |
| LLC IT Energy Service | 1 504 | 1 943 | 3 447 | 3 732 |
| PJSC IDGC of the North-West | **–** | **–** | 23 | **–** |
|  |  |  |  |  |
| **Interest expenses on bonds** | **35 902** | **49 575** | **74 082** | **103 619** |
| PJSC Rosseti | 35 902 | 49 575 | 74 082 | 103 619 |
|  |  |  |  |  |

24. Disclosure of information about the related parties (continued)

Terms and conditions of transactions with related parties

Sale and purchase transactions with the related parties are performed on terms similar to the terms of the transactions on a commercial basis. Calculations for power transmission are carried out at the rates approved by law. Balances at the end of the year are not secured and interest free and payment is made in cash. No guarantee was granted or received in respect of accounts receivable or payable from the related parties. For the six months ended June 30, 2017, the Group has not recorded any impairment of receivables from the related parties. This assessment is undertaken each reporting year through examining the financial position of a related party and the market in which it operates.

**Compensation to the key management staff**

Key management staff consists of the Director and his deputies including Finance Director and Chief Accountant as well as the members of the Board of Directors. Total remuneration to key management staff represented by short-term employee benefits (wages, annual bonus, and pensions), severance payments and "Expenditure on wages and payroll taxes" is shown in the table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **For three months ended** | | **For six months ended** | |
|  | **June 30, 2017** | **June 30, 2016** | **June 30, 2017** | **June 30, 2017** |
| **Not audited** | | **Not audited** | |
| Short-term compensations | 20 758 | 12 538 | 45 261 | 27 939 |
| Severance payments | – | – | – | – |
| **Total** | **20 758** | **12 538** | **45 261** | **27 939** |

Operations with the companies under the Government’s control

In the process of its operating activities the Group conducts significant transactions with companies controlled by the state. Revenues and purchases from the state-controlled companies are measured at regulated tariffs, if fitted, in other cases revenues and purchases are measured at market prices.

1. Financial risk management

As at June 30, 2017 the principal financial liabilities of the Group included bank loans, bonds and trade payables. The primary purpose of these instruments is to raise funds to finance the Group's operations. The Group has various financial assets such as trade receivables, cash and short-term deposits, which arise directly from its operating activities.

The main risks associated with financial instruments of the Group include credit risk and liquidity risk. The impact of these and other financial risks on the Group are described below.

25. Financial risk management (continued)

Credit risk

The group makes transactions only with recognized creditworthy parties. In accordance with the Group's policies, all the customers who wish to trade on credit terms are subject to credit verification procedures. In addition, accounts receivable are subject to continuous monitoring to ensure that the risk of default of debt for the Group is minimal. The need for recognition of impairment is analysed at each reporting date on an individual basis for major clients. In addition, the amounts receivable from large amount of small debtors are combined into homogeneous groups and are tested for impairment on a collective basis. The calculations are based on information on actual past losses. The maximum exposure to the risks is equal to the book value of a debt disclosed in *Note 8*.

Credit risk concentration

The Group's revenue from the two largest customers JSC St. Petersburg Sales Company and LLC RKS-Energo (in 2016, OJSC Petersburg Sales Company and LLC RKS-Energo) are disclosed in *Note 17*.

As at June 30, 2017 the debt of these customers amounted to 1 323 514 (December 31, 2016: 1 276 868), accounting for 32% (Dec 31, 2016: 28%) of all accounts receivable.

In respect of the credit risk associated with other financial assets of the Group which comprise cash and cash equivalents and financial investments available-for-sale, the Group's credit risk is associated with the possibility of default of the counterparty with maximum exposure to risks corresponding to the book value of these instruments.

Liquidity risk

The group monitors its risk of a shortage of funds using a current liquidity planning instrument. This instrument helps to analyse the timing of payments related to the financial assets and financial liabilities and the forecast cash flows from the operating activities.

25. Financial Risk management (continued)

Liquidity risk (continued)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **1 year** | **2 years** | **3-5 years** | **More than 5 years** |
| **As at June 30, 2017 (not audited)** |  |  |  |  |
| Outstanding bonds | 2 517 288 | – | – | – |
| Interest credits | 2 699 197 | 16 105 511 | 17 444 726 | – |
| Trade and other payables | 17 032 580 | 27 370 | 71 400 | 24 701 |
| **Total** | **22 249 065** | **16 132 881** | **17 516 126** | **24 701** |
|  |  |  |  |  |
|  | **1 year** | **2 years** | **3-5 years** | **More than 5 years** |
| **As at December 31, 2016** |  |  |  |  |
| Outstanding bonds | 2 517 288 | – | – | – |
| Interest credits | 14 608 058 | 11 243 750 | 10 169 020 | – |
| Trade and other payables | 17 615 796 | 3 063 | 71 400 | 23 801 |
| **Total** | **34 741 142** | **11 246 813** | **10 240 420** | **23 801** |

Fair value

The table below presents the hierarchy of sources of fair value measurements of assets and liabilities of the Group.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Total,**  **June 30, 2017** | **Level 1** | **Level 2** | **Level 3** |
| **Assets at fair value:** |  |  |  |  |
| Long-term and short-term investments | 2 152 355 |  |  | 2 152 355 |
| Investments available for sale | 913 342 |  |  | 913 342 |
| Fixed assets, accounted at the revaluation model | 208 739 564 |  |  | 208 739 564 |
|  |  |  |  |  |
| **Liabilities for which fair value is disclosed:** |  |  |  |  |
| Credits with a fixed rate | 29 791 964 |  |  | 29 791 964 |
| Loans with a fixed rate | 2 319 057 |  |  | 2 400 000 |

For the determination of the fair value the following methods and assumptions are used:

The fair value of cash, loans and receivables, trade and other payables and short-term borrowings as at June 30, 2017 is equal to their book value because of the short maturities of these instruments.

The fair value of finance lease liabilities and long-term credits was estimated by discounting the future cash flows using current rates for debt with similar terms, credit risk and remaining term to maturity and taking into account the creditworthiness of the Group.

The fair value of bonds was determined on the basis of the market quotations.

For six months ended June 30, 2017 there was no transfer within the levels of the fair value measurement.