

PJSC MOESK

Consolidated interim condensed financial statements (*unaudited*)

for the three and nine months ended 30 September 2017

PJSC MOESK

Consolidated Interim Condensed Financial Statements for the three and nine months ended 30 September 2017

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Consolidated interim condensed statement of profit or loss and other comprehensive income for the three and nine months ended 30 September 2017

'000 RUB	Note	For the 3 months ended 30 September		For the 9 months ended 30 September	
		2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Revenues	7	35 766 315	33 393 035	108 161 783	100 611 436
Operating expenses	8	(34 589 112)	(31 471 283)	(102 222 060)	(93 950 110)
Other operating income, net	9	1 314 720	685 538	3 936 776	1 615 832
Results from operating activities		2 491 923	2 607 290	9 876 499	8 277 158
Finance income	10	26 221	20 814	102 671	158 166
Finance costs	10	(1 443 623)	(1 618 534)	(4 501 068)	(4 699 795)
Profit before income tax		1 074 521	1 009 570	5 478 102	3 735 529
Increase in income tax expense		(561 203)	(245 402)	(2 100 175)	(1 102 380)
Profit for the period		513 318	764 168	3 377 927	2 633 149
Items not to be reclassified to profit and loss in subsequent periods					
Remeasurements of defined benefit liability		(41 916)	(48 693)	(99 426)	(510 954)
Income tax on defined benefit liability		7 642	9 739	18 132	102 191
Other comprehensive expense, net of tax		(34 274)	(38 954)	(81 294)	(408 763)
Total comprehensive income for the period		479 044	725 214	3 296 633	2 224 386
Profit for the period attributable to: Shareholders of PJSC MOESK		513 318	764 168	3 377 927	2 633 149
		513 318	764 168	3 377 927	2 633 149
Total comprehensive income attributable to: Shareholders of PJSC MOESK		479 044	725 214	3 296 633	2 224 386
Basic and diluted earnings per ordinary share (In Russian Roubles)		0.0105	0.0157	0.0694	0.0541

These consolidated interim condensed financial statements were approved on 22 November 2017.

General Director

P. A. Sinyutin



V. Y. Myasnikov
First Deputy General Director
for Finance and Economic Activity
and Corporate Management
V.Y. Myasnikov

The consolidated interim condensed statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming an integral part of, these consolidated interim condensed financial statements set out on pages 7 to 21 and with the consolidated financial statements for the year ended 31 December 2016.

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Consolidated interim condensed statement of financial position
as at 30 September 2017

'000 RUB	Note	30 September 2017 (unaudited)	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	11	306 839 085	303 383 007
Intangible assets	12	2 610 573	2 586 753
Other non-current assets		3 754 536	4 003 471
Total non-current assets		313 204 194	309 973 231
Current assets			
Inventories		2 989 710	3 042 032
Income tax receivable		2 276 137	2 487 914
Trade and other receivables		20 362 447	22 227 964
Cash and cash equivalents	13	1 166 233	784 507
Total current assets		26 794 527	28 542 417
Total assets		339 998 721	338 515 648
Equity and liabilities			
Equity			
Share capital	14	24 353 546	24 353 546
Additional paid in capital		18 580 888	18 580 888
Retained earnings		131 407 708	129 630 980
Total equity		174 342 142	172 565 414
Non-current liabilities			
Loans and borrowings	16	73 682 040	67 322 143
Employee benefits		3 371 434	3 657 801
Deferred tax liabilities		17 229 425	15 990 889
Trade and other payables		5 710 055	6 926 018
Total non-current liabilities		99 992 954	93 896 851
Current liabilities			
Loans and borrowings	16	11 243 204	16 892 363
Income tax payable		8 928	-
Other taxes payable		2 144 838	2 078 734
Trade and other payables		51 263 529	52 459 730
Provisions	17	1 003 126	622 556
Total current liabilities		65 663 625	72 053 383
Total equity and liabilities		339 998 721	338 515 648

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming an integral part of, these consolidated interim condensed financial statements set out on pages 7 to 21 and with the consolidated financial statements for the year ended 31 December 2016.

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Consolidated interim condensed statement of changes in equity for the nine months ended 30 September 2017

	Share capital (Note 14 (a))	Additional paid-in capital	Retained earnings	Total
Balance at 1 January 2017	24 353 546	18 580 888	129 630 980	172 565 414
Profit for the period	–	–	3 377 927	3 377 927
Other comprehensive expense	–	–	(81 294)	(81 294)
Total comprehensive income for the period	24 353 546	18 580 888	132 927 613	175 862 047
Dividends to shareholders (unaudited) Note 14 (c))	–	–	(1 519 905)	(1 519 905)
Balance at 30 September 2017	24 353 546	18 580 888	131 407 708	174 342 142
Balance at 1 January 2016	24 353 546	18 580 888	126 298 271	169 232 705
Profit for the period	–	–	2 633 149	2 633 149
Other comprehensive expense	–	–	(408 763)	(408 763)
Total comprehensive income for the period	24 353 546	18 580 888	128 522 657	171 457 091
Dividends to shareholders (unaudited) Note 14 (c))	–	–	(6 317 310)	(6 317 310)
Balance at 30 September 2016	24 353 546	18 580 888	122 205 347	165 139 781

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming an integral part of, these consolidated interim condensed financial statements set out on pages 7 to 21 and with the consolidated financial statements for the year ended 31 December 2016.

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Consolidated interim condensed statement of cash flows for the nine months ended 30 September 2017

'000 RUB

	9 months ended 30 September 2017 (unaudited)	9 months ended 30 September 2016 (unaudited)
Cash flows from operating activities		
Profit for the period	3 377 927	2 633 149
Adjustments for:		
Depreciation and amortization	15 693 009	16 255 527
Loss from disposal of property, plant and equipment	158 021	374 833
Provisions for legal claims charge	2 685 447	433 243
Finance income	(102 671)	(158 166)
Finance costs	4 501 068	4 699 795
Allowance for impairment of trade and other receivables	458 571	1 515 633
Provision for inventory obsolescence	67 138	7 957
Loss on disposal of inventory	2 629	21 390
Income tax expense	2 100 175	1 102 380
Property received free of charge	(2 315 694)	(2 128 894)
Other non-cash items	639 449	(67 952)
Cash flows from operating activities before changes in working capital	27 265 069	24 689 895
Change in inventories	(17 445)	(616 519)
Change in trade and other receivables	1 764 126	2 753 731
Change in retirement benefit obligations and related assets	(662 939)	(31 328)
Change in trade and other payables	(2 492 262)	(687 682)
Change in taxes payable, other than income tax	66 104	517 061
Cash flows from operating activities before income taxes	25 922 653	26 625 158
Income taxes paid	(1 287 443)	(2 161 488)
Interest paid	(5 345 465)	(5 814 702)
Net cash from operating activities	19 289 745	18 648 968
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	101 723	1 973
Acquisition of property, plant and equipment	(17 323 670)	(21 021 696)
Interest received	83 648	143 971
Acquisition of intangible assets	(327 118)	(456 629)
Net cash used in investing activities	(17 465 417)	(21 332 381)
Cash flows from financing activities		
Proceeds from loans and borrowings	77 830 150	95 180 279
Repayment of loans and borrowings	(77 619 462)	(86 238 681)
Payment of finance lease liabilities	(1 519 900)	(6 317 310)
Net cash used in financing activities	(133 390)	(101 160)
	(1 442 602)	2 523 128
Net increase/(decrease) in cash and cash equivalents	381 726	(160 285)
Cash and cash equivalents at beginning of period	784 507	400 645
Cash and cash equivalents at end of period	1 166 233	240 360

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming an integral part of, these consolidated interim condensed financial statements set out on pages 7 to 21 and with the consolidated financial statements for the year ended 31 December 2016.

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Notes to the consolidated interim condensed financial statements (continued)

1. Background

(a) Organisation and types of activities

Public Joint-Stock Company "Moscow United Electric Grid Company" (hereinafter PJSC MOESK or the "Company") was established on 1 April 2005 by transfer of assets and activities related to the electricity transmission of OJSC Mosenergo, a subsidiary of RAO UES of Russia, within the framework of Russian electricity sector restructuring (Minutes No. 1 of 29 June 2004 of the annual general meeting of shareholders of OJSC Mosenergo).

The Group's consolidated interim condensed financial statements include the following subsidiaries:

- ▶ JSC Moskabel'set'montaj (MKSM);
- ▶ OJSC Moskabel'energoremont (MKER);
- ▶ OJSC Repair of Electrical and Technical Equipment Plant (RETEP);
- ▶ OJSC Energocentr.

As at 30 September 2017 the Russian Government owned 88.89% of the voting ordinary shares and 7.01% of the preference shares of PJSC "ROSSETI", which in turn owned 50.9% of the shares of the Company.

The Company's registered office and the actual address is at building 3/2, 2nd Paveletskiy proezd, Moscow, 115114, the Russian Federation.

The Group's principal activity is electricity transmission for a fee in Moscow and the Moscow Region. The Group also provides connection services as part of its core operations.

(b) Russian business environment

The Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the national economics and financial markets, which display the characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. The Company's management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

2. Basis of preparation of financial statements

(a) Applied standards

These consolidated interim condensed financial statements for the nine months ended 30 September 2017 have been prepared in accordance with the requirements of IAS 34 Interim Financial Reporting. It does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2016.

(b) Basis of preparation and measurement

The consolidated interim condensed financial statements are prepared on the historical cost basis except that investments classified as available-for-sale are stated at fair value.

(c) Functional and presentation currency

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

Notes to the consolidated interim condensed financial statements (continued)

(d) Use of judgements, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated interim condensed financial statements in conformity with IFRS requirements. Actual results may differ from those estimates.

The judgements, estimates and assumptions applied by the Group in these consolidated interim condensed financial statements are substantially the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2016.

3. Significant accounting policies

Except as described below, the accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2016.

Changes in accounting policies

The following standards and amendments were applied for the first time from 1 January 2017:

- ▶ Amendments to IAS 7 Statement of Cash Flows. The amendments require companies to provide a reconciliation of financing cash flows in the statement of cash flows to the opening and closing balances of liabilities arising from financing activities, except for equity balances.
- ▶ Amendments to IAS 12 Income Taxes. Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The application of these amendments will have no significant impact on the Company's financial position or results of operations.

4. Determination of fair values

The fair value of non-derivative financial instruments is estimated for disclosure purposes as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

5. Financial risk management

During the period the Company had the same exposure to financial risks as those which existed as at, and during, the year ended 31 December 2016.

6. Operating segments

Operating segments are identified on the basis of internal reports on components of the Group that are regularly reviewed by the Board of Directors, the chief operating decision maker, to allocate resources to a segment and assess its performance.

Management has determined the following as reportable segments:

- ▶ Electricity transmission in Moscow;
- ▶ Electricity transmission in the Moscow region;
- ▶ Connection services in Moscow;
- ▶ Connection services in the Moscow region.

Other activities mainly represent rental income, installation services, repair and technical maintenance of electrical equipment, which have been included in the "other". None of these items meets any of the quantitative thresholds for determining reportable segments for the three and nine months ended 30 September 2017 or the three and nine months ended 30 September 2016.

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Notes to the consolidated interim condensed financial statements (continued)

The segment revenue and profit/(loss) before income tax for the three months ended 30 September 2017 were as follows (unaudited):

'000 RUB	Electricity transmission	Connection services	Other	Total
Revenues				
External revenues	32 323 797	1 307 670	1 368 858	35 000 325
Moscow	16 118 582	1 041 480	1 204 478	18 364 540
Moscow Region	16 205 215	266 190	164 380	16 635 785
Inter-segment revenue	—	61 753	636 751	698 504
Moscow	—	—	231 526	231 526
Moscow Region	—	61 753	405 225	466 978
Reportable segment profit/(loss) before Income tax	(497 192)	1 217 623	261 108	981 539
Moscow	(503 747)	949 821	170 211	616 285
Moscow Region	6 555	267 802	90 897	365 254

The segment revenue and profit/(loss) before income tax for the three months ended 30 September 2016 were as follows (unaudited):

'000 RUB	Electricity transmission	Connection services	Other	Total
Revenues				
External revenues	29 949 876	1 998 543	457 571	32 405 990
Moscow	15 506 786	1 241 380	323 142	17 071 308
Moscow Region	14 443 090	757 163	134 429	15 334 682
Inter-segment revenue	—	—	877 469	877 469
Moscow	—	—	544 510	544 510
Moscow Region	—	—	332 959	332 959
Reportable segment profit/(loss) before Income tax	929 464	1 831 085	215 511	2 976 060
Moscow	1 022 590	1 145 322	145 666	2 313 578
Moscow Region	(93 126)	685 763	69 845	662 482

The segment revenue and profit before income tax for the nine months ended 30 September 2017 were as follows (unaudited):

'000 RUB	Electricity transmission	Connection services	Other	Total
Revenues				
External revenues	99 509 348	4 133 208	2 742 217	106 384 773
Moscow	49 917 203	2 918 485	2 345 605	55 181 293
Moscow Region	49 592 145	1 214 723	396 612	51 203 480
Inter-segment revenue	—	61 753	1 715 243	1 776 996
Moscow	—	—	765 660	765 660
Moscow Region	—	61 753	949 583	1 011 336
Reportable segment profit before Income tax	1 679 761	3 695 760	701 274	6 076 795
Moscow	843 692	2 641 666	445 276	3 930 634
Moscow Region	836 069	1 054 094	255 998	2 146 161

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Notes to the consolidated interim condensed financial statements (continued)

The segment revenue and profit before income tax for the nine months ended 30 September 2016 were as follows (unaudited):

'000 RUB	Electricity transmission	Connection services	Other	Total
Revenues				
External revenues	92 397 250	5 597 346	1 064 073	99 058 669
Moscow	47 032 949	3 592 885	710 319	51 336 153
Moscow Region	45 364 301	2 004 461	353 754	47 722 516
Inter-segment revenue	—	—	1 983 254	1 983 254
Moscow	—	—	1 138 187	1 138 187
Moscow Region	—	—	845 067	845 067
Reportable segment profit before Income tax				
	3 799 931	5 067 062	265 724	9 132 717
Moscow	3 547 681	3 303 541	70 363	6 921 585
Moscow Region	252 250	1 763 521	195 361	2 211 132

Segment assets are as follows:

'000 RUB	Electricity transmission	Connection services	Other	Unallocated	Total
30 September 2017 (unaudited)					
Total assets	315 750 048	4 603 880	4 713 251	25 186 698	350 253 877
Moscow	212 529 026	4 471 261	3 728 297	—	220 728 584
Moscow Region	103 221 022	132 619	984 954	—	104 338 595
Unallocated	—	—	—	25 186 698	25 186 698
31 December 2016					
Total assets	318 519 436	4 911 937	4 349 013	24 863 016	352 643 402
Moscow	212 731 414	4 765 539	3 364 817	—	220 861 770
Moscow Region	105 788 022	146 398	984 196	—	106 918 616
Unallocated	—	—	—	24 863 016	24 863 016

Segment liabilities are as follows:

'000 RUB	Electricity transmission	Connection services	Other	Unallocated	Total
30 September 2017 (unaudited)					
Total liabilities	103 862 165	33 903 271	3 063 543	15 208 314	156 037 293
Moscow	100 149 214	28 336 606	2 540 307	—	131 026 127
Moscow Region	3 712 951	5 566 665	523 236	—	9 802 852
Unallocated	—	—	—	15 208 314	15 208 314
31 December 2016					
Total liabilities	100 914 013	35 409 807	2 289 282	18 225 453	156 838 555
Moscow	96 674 010	28 208 720	1 728 841	—	126 611 571
Moscow Region	4 240 003	7 201 087	560 441	—	12 001 531
Unallocated	—	—	—	18 225 453	18 225 453

Notes to the consolidated interim condensed financial statements (continued)

Reconciliation of reportable segment profit is presented below:

'000 RUB	For the 3 months ended 30 September (unaudited)		For the 9 months ended 30 September (unaudited)	
	2017	2016	2017	2016
Reportable segment profit	720 431	2 760 549	5 375 521	8 866 993
Other profit/ (loss)	261 108	215 511	701 274	265 724
Unallocated	(1 611 721)	(3 525 138)	(4 231 759)	(7 921 783)
Total profit before tax per Russian Accounting Standards	(630 182)	(549 078)	1 845 036	1 210 934
Expenses associated with leased property, plant and equipment	70 881	72 001	208 220	199 278
Borrowing costs capitalized	1 738	(2 713)	4 742	(11 340)
Depreciation and amortisation	1 569 029	462 189	3 014 250	2 477 247
Gain on disposal of property, plant and equipment	6 210	1 358	(33 753)	8 051
Release of allowance for impairment of accounts receivable	9	1 197 248	362	7 384
Provision for legal claims	(2 226)	(8 582)	(279)	161 091
Effect of loan and borrowings discounting	(24 555)	(11 229)	(45 111)	(40 488)
Employee benefits obligation	28 211	(88 452)	493 127	(158 170)
Other items	55 406	(63 172)	(8 492)	(118 458)
Consolidated profit before Income tax per IFRS	1 074 521	1 009 570	5 478 102	3 735 529

The segment disclosure was prepared in accordance with the segment disclosure as at 31 December 2016. However, for the purpose of preparation of the Consolidated interim condensed financial statements the Group does not present a reconciliation of segment assets and segment liabilities to the figures of the consolidated interim condensed financial statements in accordance with IFRS 8 Operating segments.

Segment operating results that are reported to the Group's chief operating decision maker are determined based on the income and expenses calculated in accordance with Russian Accounting Standards (RAS). Segment operating results represent the profit earned by each segment without allocation of finance income and expenses, other income and expenses which are included in "unallocated" component.

Major customer

During the nine months ended 30 September 2017, revenue from one customer of the Group's electricity transmission segment represented approximately 84% (RUB 90 533 233 thousand) of the Group's total revenue (the nine months ended 30 September 2016: 78%; RUB 78 449 582 thousand).

During the three months ended 30 September 2017, revenue from one customer of the Group's electricity transmission segment represented approximately 82% (RUB 29 437 111 thousand) of the Group's total revenue (the three months ended 30 September 2016: 96%; RUB 31 974 183 thousand).

7. Revenue

'000 RUB	For the 3 months ended 30 September (unaudited)		For the 9 months ended 30 September (unaudited)	
	2017	2016	2017	2016
Electricity transmission	32 323 797	29 949 876	99 509 348	92 397 250
Revenue from connection services	1 369 423	1 998 058	4 133 208	5 597 346
Other revenue	2 073 095	1 445 101	4 519 227	2 616 840
	35 766 315	33 393 035	108 161 783	100 611 436

Revenue from connection services represents revenue from services related to connection of consumer's power receivers to the electricity network of the Group.

Notes to the consolidated interim condensed financial statements (continued)

Other revenues for the nine months include income from compensation of losses in the amount of RUB 1 783 443 thousand (the nine months ended 30 September 2016: RUB 1 508 533 thousand), electrical equipment installation and maintenance services and rental income.

Other revenues for the three months include income from compensation of losses in the amount of RUB 765 235 thousand (the three months ended 30 September 2016: RUB 967 017 thousand), electrical equipment installation and maintenance services and rental income.

8. Operating expenses, net

'000 RUB.	For the 3 months ended 30 September (unaudited)		For the 9 months ended 30 September (unaudited)	
	2017	2016	2017	2016
Personnel costs	(4 729 675)	(4 064 499)	(13 570 347)	(13 378 339)
Depreciation and amortisation	(4 622 684)	(5 746 500)	(15 693 009)	(16 255 527)
Reversal of an impairment of property, plant and equipment	6 903	–	6 903	101
<i>Material expenses, including:</i>				
Electricity for compensation of losses	(3 143 745)	(2 768 603)	(10 646 936)	(9 683 968)
Purchased electricity and heat power for own needs	(34 623)	(31 119)	(210 143)	(182 982)
Other material costs	(754 225)	(586 209)	(1 924 080)	(1 608 871)
<i>Production work and services, including:</i>				
Electricity transmission services	(15 537 384)	(13 073 947)	(45 940 591)	(39 098 797)
Repairs, maintenance services	(1 053 549)	(621 512)	(1 933 813)	(1 392 533)
Other works and industrial services	(875 309)	(349 518)	(1 822 925)	(905 173)
Taxes and levies other than income tax	(715 127)	(629 578)	(2 179 116)	(1 921 948)
Rent	(174 462)	(214 344)	(482 819)	(594 361)
Insurance	(122 954)	(120 036)	(362 388)	(358 519)
<i>Other third-party services, including:</i>				
Communication services	(173 303)	(195 786)	(502 534)	(534 322)
Security services	(151 049)	(120 731)	(440 784)	(385 891)
Consulting, legal and audit services	(271 611)	(171 016)	(750 997)	(588 956)
Transportation services	(84 826)	(95 118)	(249 381)	(223 850)
Other services	(263 064)	(388 757)	(717 672)	(951 129)
Impairment of receivables	(154 002)	(578 719)	(458 571)	(1 515 347)
Provisions	(973 501)	(6 825)	(2 685 447)	(433 243)
Other expenses	(760 922)	(1 708 466)	(1 657 410)	(3 936 455)
	(34 589 112)	(31 471 283)	(102 222 060)	(93 950 110)

Notes to the consolidated interim condensed financial statements (continued)

9. Other operating income

'000 RUB

	For the 3 months ended 30 September (unaudited)		For the 9 months ended 30 September (unaudited)	
	2017	2016	2017	2016
Income from assets acquired free of charge	256 074	217 699	742 395	673 777
Income under non-contracted energy consumption	187 749	50 674	1 758 016	82 945
Other income	870 897	417 165	1 436 365	859 110
	1 314 720	685 538	3 936 776	1 615 832

10. Finance income and costs

'000 RUB

	For the 3 months ended 30 September (unaudited)		For the 9 months ended 30 September (unaudited)	
	2017	2016	2017	2016
Finance income				
Interest income	26 218	20 814	83 643	143 719
Interest on assets related to employee benefits obligations	–	–	19 025	14 195
Other financial income	3	–	3	252
	26 221	20 814	102 671	158 166
Finance costs				
Interest expense in respect of loans and borrowings	(1 351 821)	(1 502 500)	(4 192 862)	(4 357 933)
Interest on employee benefits obligation	(41 821)	(81 190)	(188 834)	(248 852)
Unwinding of discount on financial liabilities at amortized costs	(25 453)	(11 229)	(46 009)	(40 488)
Interest on finance lease	(24 486)	(23 613)	(73 195)	(52 466)
Other financial costs	(42)	(2)	(168)	(56)
	(1 443 623)	(1 618 534)	(4 501 068)	(4 699 795)

Notes to the consolidated interim condensed financial statements (continued)

11. Property, plant and equipment

'000 RUB	Land and buildings	Transmission networks	Transformers and transformer substations	Other	Construction In progress	Total
Initial cost						
At 1 January 2016	38 945 859	199 108 733	77 351 031	81 578 203	33 921 856	430 905 682
Additions (unaudited)	185 429	1 402 507	577 535	486 132	16 983 483	19 635 086
Transfers (unaudited)	1 986 404	6 408 260	2 772 785	322 402	(11 489 851)	–
Disposals (unaudited)	(11 778)	(679 106)	(13 768)	(19 196)	–	(723 848)
At 30 September 2016 (unaudited)	41 105 914	206 240 394	80 687 583	82 367 541	39 415 488	449 816 920
Depreciation and impairment						
At 1 January 2016	(9 197 476)	(58 318 568)	(26 983 969)	(45 844 491)	(649 504)	(140 994 008)
Depreciation charge (unaudited)	(882 553)	(6 599 311)	(3 753 830)	(4 883 234)	–	(16 118 928)
Reversal of impairment (unaudited)	–	–	–	–	101	101
Transfers (unaudited)	(1 840)	(11 725)	(4 751)	(121)	18 437	–
Disposals (unaudited)	9 799	258 103	11 723	18 709	–	298 334
At 30 September 2016 (unaudited)	(10 072 070)	(64 671 501)	(30 730 827)	(50 709 137)	(630 965)	(156 814 500)
Net book value						
At 1 January 2016	29 748 383	140 790 165	50 367 062	35 733 712	33 272 352	289 911 674
At 30 September 2016 (unaudited)	31 033 844	141 568 893	49 956 757	31 658 403	37 784 523	293 002 420
Initial Cost						
At 1 January 2017	42 045 897	216 927 773	83 879 457	84 792 616	37 703 193	465 348 936
Additions (unaudited)	59 642	2 068 616	302 563	65 359	16 639 666	19 135 846
Transfers (unaudited)	2 837 335	4 645 800	2 235 749	931 433	(10 650 317)	–
Disposals (unaudited)	(35 168)	(267 786)	(14 333)	(90 690)	(131 090)	(539 067)
At 30 September 2017 (unaudited)	44 907 706	223 374 403	86 403 436	85 698 718	43 561 452	483 945 715
Depreciation						
At 1 January 2017	(10 374 880)	(66 863 078)	(31 996 758)	(52 140 736)	(590 477)	(161 965 929)
Depreciation charge (unaudited)	(947 951)	(6 618 754)	(3 736 855)	(4 089 272)	–	(15 392 832)
Reversal of impairment (unaudited)	–	–	–	–	6 903	6 903
Disposals (unaudited)	7 873	140 499	9 577	87 279	–	245 228
Transfers (unaudited)	(4 161)	(1 564)	(1 048)	(849)	7 622	–
At 30 September 2017 (unaudited)	(11 319 119)	(73 342 897)	(35 725 084)	(56 143 578)	(575 952)	(177 106 630)
Net book value						
At 1 January 2017	31 671 017	150 064 695	51 882 699	32 651 880	37 112 716	303 383 007
At 30 September 2017 (unaudited)	33 588 587	150 031 506	50 678 352	29 555 140	42 985 500	306 839 085

Capitalised Interest

Borrowing costs totalling RUB 1 512 221 thousand as at 30 September 2017 with an annual capitalisation rate of 8.76% (30 September 2016: RUB 1 507 785 thousand with an annual capitalisation rate of 9.72%) were included in the cost of property, plant and equipment and represent interest on loans.

Notes to the consolidated interim condensed financial statements (continued)

12. Intangible assets

'000 RUB

	Software	Certificates and licences	Other	Total
<i>Initial cost</i>				
At 1 January 2016	1 637 496	87 272	593 593	2 318 361
Additions (unaudited)	408 774	-	51 518	460 292
Transfers (unaudited)	25 219	-	(25 219)	-
Disposals (unaudited)	(620)	-	-	(620)
At 30 September 2016 (unaudited)	2 070 869	87 272	619 892	2 778 033
<i>Amortisation</i>				
At 1 January 2016	(174 097)	(56 744)	(29 839)	(260 680)
Amortisation (unaudited)	(114 040)	(7 368)	(18 853)	(140 261)
Transfers (unaudited)	(12 071)	-	12 071	-
Disposals (unaudited)	620	-	-	620
At 30 September 2016 (unaudited)	(299 588)	(64 112)	(36 621)	(400 321)
<i>Net book value</i>				
At 1 January 2016	1 463 399	30 528	563 754	2 057 681
At 30 September 2016 (unaudited)	1 771 281	23 160	583 271	2 377 712
<i>Initial cost</i>				
At 1 January 2017	2 252 239	87 272	704 006	3 043 517
Additions	128 286	-	202 826	331 112
Transfers (unaudited)	98 999	-	(98 999)	-
Disposals	(1 744)	-	-	(1 744)
At 30 September 2017 (unaudited)	2 477 780	87 272	807 833	3 372 885
<i>Amortisation</i>				
At 1 January 2017	(337 584)	(66 556)	(52 624)	(456 764)
Amortisation	(249 276)	(7 133)	(50 883)	(307 292)
Disposals	1 744	-	-	1 744
At 30 September 2017 (unaudited)	(585 116)	(73 689)	(103 507)	(762 312)
<i>Net book value</i>				
At 1 January 2017	1 914 655	20 716	651 382	2 586 753
At 30 September 2017 (unaudited)	1 892 664	13 583	704 326	2 610 573

13. Cash and cash equivalents

'000 RUB

	30 September 2017	31 December 2016
Current bank account balances	1 166 049	784 444
Petty cash	184	63
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	1 166 233	784 507

Notes to the consolidated interim condensed financial statements (continued)

14. Equity**(a) Share capital**

Share capital	Ordinary shares 30 September 2017	Ordinary shares 31 December 2016
Issued shares, fully paid (pcs.)	48 707 091 574	48 707 091 574
Par value of one share (in RUB)	0.50	0.50

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Company's shareholders.

(b) Treasury shares

As at 30 September 2017 and 31 December 2016 the Group did not hold any of its own shares.

(c) Dividends

At the annual general shareholders meeting held on 08 June 2017 the decision was made to declare dividends for the year 2016 for ordinary shares in the amount of RUB 1 519 905 thousand (RUB 0.0312 per share).

At the annual general shareholders meeting held on 09 June 2016 the decision was made to declare dividends for the year 2015 for ordinary shares in the amount of RUB 6 317 310 thousand (RUB 0.1297 per share).

15. Loans and borrowings

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

'000 RUB	30 September 2017	31 December 2016
Non-current		
Unsecured bank facility	29 814 344	48 338 212
Unsecured bond issues	43 292 876	18 359 702
Finance lease liabilities	574 820	624 229
Total non-current	73 682 040	67 322 143
Current		
Current portion of unsecured bank facility	10 094 145	11 225 661
Current portion of unsecured bond issues	1 044 297	5 570 309
Current portion of finance lease liabilities	104 762	96 393
Total current	11 243 204	16 892 363

The Group raised the following bank loans during the nine months ended 30 September 2017:

Amount	Interest rate	Maturity
7 692 610*	8.47%	2020
6 000 000*	8.50%	2022
2 150 549*	8.45%	2020
2 134 439*	8.50%	2019
600 000*	8.50%	2020

The Group raised the bond issue during the nine months ended 30 September 2017:

Amount	Interest rate	Maturity
10 000 000	9.15%	2020
10 000 000	8.55%	2022

PJSC MOESK

Notes to the consolidated interim condensed financial statements (continued)

The Group repaid the following significant bank facilities during the nine months ended 30 September 2017:

	<u>Amount</u>
Loan *	31 892 967
Loan	7 000 000

* Loan from state-controlled bank.

PJSC MOESK

Notes to the consolidated interim condensed financial statements (continued)

15 Loans and borrowings (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans and bonds were as follows:

		30 September 2017		31 December 2016		30 September 2017		31 December 2016	
		Currency	Nominal interest rate	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
'000 RUB									
Unsecured bonds		RUB	-	-	2024	621 918	389 741	684 580	424 939
Unsecured bank facility*		RUB	8.47%	-	2020	7 701 536	7 701 536	-	-
Unsecured bank facility*		RUB	8.50%	-	2019	2 836 590	2 836 590	-	-
Unsecured bank facility*		RUB	8.45%	-	2020	2 165 485	2 165 485	-	-
Unsecured bank facility*		RUB	8.50%	-	2020	600 699	600 699	-	-
Unsecured bank facility*		RUB	8.50%	-	2022	6 005 589	6 005 589	-	-
Unsecured bank facility*		RUB	8.00%	8.00%	2018	18 541 615	18 541 615	18 545 608	18 545 608
Unsecured bank facility*		RUB	8.70%	9.25%	2017	2 737	2 737	2 949	2 949
Unsecured bank facility*		RUB	8.08%	8.08%	2018	2 002 213	2 002 213	2 002 648	2 002 648
Unsecured bank facility*		RUB	-	9.16%	2017	-	-	4 106 157	4 106 157
Unsecured bank facility*		RUB	-	9.75%	2018	-	-	11 810 539	11 810 539
Unsecured bank facility*		RUB	-	9.90%	2019	-	-	16 025 967	16 025 967
Unsecured bank facility		RUB	12.15%	12.90%	2019	52 024	52 024	60 583	60 583
Unsecured bank facility		RUB	-	9.45%	2017	-	-	7 009 419	7 009 419
Unsecured bank facility		RUB	-	9.77%	2017	-	-	1	1
Unsecured bonds		RUB	9.15%	-	2020	10 082 718	10 068 853	-	-
Unsecured bonds		RUB	8.55%	-	2022	10 316 212	10 293 055	-	-
Unsecured bonds		RUB	8.30%	11.00%	2020	5 010 234	5 010 234	5 150 685	5 149 296
Unsecured bonds		RUB	10.30%	10.30%	2019	8 352 183	8 341 233	8 146 743	8 130 585
Unsecured bonds		RUB	10.00%	10.00%	2019	5 158 895	5 156 060	5 034 245	5 030 149
Unsecured bonds		RUB	9.65%	9.65%	2020	5 085 929	5 077 998	5 206 229	5 195 042
Finance lease liabilities		RUB	11.00%	11.00%	2038	-	679 582	-	720 622
						84 536 577	84 925 244	83 786 355	84 214 506

* Loan from state controlled entity.

Notes to the consolidated interim condensed financial statements (continued)

16. Provisions

'000 RUB

	<u>Legal claims</u>
Balance at 1 January 2016	<u>296 267</u>
Provisions accrued during the year	1 218 455
Provisions reversed during the year	(191 167)
Provisions used during the year	<u>(700 999)</u>
Balance at 31 December 2016	<u>622 556</u>
Provisions accrued during the period	2 885 704
Provisions reversed during the period	(200 257)
Provisions used during the period	<u>(2 304 877)</u>
Balance at 30 September 2017	<u>1 003 126</u>

Provision for legal claims relates is formed to cover the costs of claims brought against the Group within the ordinary course of business. Management believes, after taking appropriate legal advice, that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

17. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2016. Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximates their carrying amount. There were no transfers between Level 2 to Level 3 of the fair value hierarchy during the nine months ended 30 September 2017.

18. Capital commitments

Future capital expenditures for which contracts relates to capital construction of power grid facilities have been signed as at 30 September 2017 amount to RUB 31 659 522 thousand (31 December 2016: RUB 32 383 468 thousand).

19. Contingencies**(a) Insurance**

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Pending litigations

The Group is party to certain legal proceedings arising in the ordinary course of business. Management does not believe that these matters will have a material adverse effect on the Group's operating results.

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. The tax authorities have the right to check the completeness of compliance with tax obligations for three calendar years following the tax year, but in some circumstances this period may be increased. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the

Notes to the consolidated interim condensed financial statements (continued)

relevant authorities could differ and the effect on these consolidated interim condensed financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Environmental matters

The Company and its predecessors have operated in the electric transmission industry in the Russian Federation for years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Management periodically evaluates its obligations under environmental regulations.

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

20. Related party transactions

PJSC MOESK operates in an economic regime dominated by entities directly or indirectly controlled by the Russian Federation through its government-related entities. PJSC MOESK has transactions with other government-related entities including but not limited to sales and purchases of goods and ancillary materials, rendering and receiving services, leasing of assets, and use of public utilities.

These transactions are conducted in the ordinary course of PJSC MOESK's business on terms comparable to those with other entities that are not government-related. PJSC MOESK has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are applied to all counterparties, independent of whether the counterparties are government-related entities or not.

(a) Control relationship

As at 30 September 2017 the Parent of the Group was PJSC Rosseti, a state controlled entity.

The party with ultimate control over the Group is the Russian Federation, which held the majority of the voting rights of PJSC Rosseti.

(b) Transactions with management and close family members

There were no transactions or balances with key management and close family members during the period except their remuneration in the form of salary and bonuses.

(i) Management remuneration

Total remuneration in the form of salary and bonuses to the key management and the members of the Board of Directors during the nine months ended 30 September 2017 was RUB 353 264 thousand (the nine months ended 30 September 2016: RUB 525 773 thousand).

Total remuneration in the form of salary and bonuses to the key management and the members of the Board of Directors during the three months ended 30 September 2017 was RUB 108 256 thousand (the three months ended 30 September 2016: RUB 82 822 thousand).

(c) Transactions with state-controlled entities

In the course of its operating activities the Group is engaged in significant transactions with state-controlled entities. Revenues and purchases from state-controlled entities are measured at regulated tariffs, where applicable; in other cases revenues and purchases are measured at normal market prices.

Revenues from state-controlled entities for the nine months ended 30 September 2017 constitute 87% (the nine months ended 30 September 2016: 82%) of total Group revenues, including 93% (the nine months ended 30 September 2016: 93%) of electricity transmission revenues.

Revenues from state-controlled entities for the three months ended 30 September 2017 constitute 86% (the three months ended 30 September 2016: 67%) of total Group revenues, including 93% (the three months ended 30 September 2016: 91%) of electricity transmission revenues.

Notes to the consolidated interim condensed financial statements (continued)

Electricity transmission costs for state-controlled entities for the nine months ended 30 September 2017 constitute 94% (the nine months ended 30 September 2016: 89%) of total transmission costs.

Electricity transmission costs for state-controlled entities for the three months ended 30 September 2017 constitute 98% (the three months ended 30 September 2016: 80%) of total transmission costs.

The most significant loans and borrowings from state-controlled entities, received and repaid, are disclosed in Note 15.

(d) Pricing policies

Revenue from related parties for electricity transmission is based on the tariffs determined by the governmental bodies. Other related party transactions are based on normal market prices.

21. Events subsequent to the reporting date

On October 5, 2017, a meeting of the Board of Directors of JSC "MKSM" was held, at which the decision was approved to issue additional securities under the JSC "MKER" cessation of activities process and to reorganize JSC "MKSM" in the form of merger with JSC "MKER".

Пронумеровано,
прошнуровано

11 листов

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