

- other (incl. no-contract consumption): 910 positive judgments worth RUB 113 million (RUB 97 million principal debt, RUB 16 million interest, incl. use of someone else's cash in line with Art.395 of the Russian Civil Code, contract penalties, legal interest and other fines).

Therefore, the share of satisfied overdue receivable claims of the Company is 96%. To collect transmission receivables upon positive judgments in 2016 RUB 2,159 million writs of execution were issued, with RUB 2,113 million or 95% redeemed.

Short-term and long-term liabilities at the beginning of the year totaled RUB 9,671 million, reaching RUB 8,311 million by the year-end.

Payables underwent the following changes:

- Suppliers and contractors: payables reached RUB 4,688 million (- RUB 1,200 million or -20% YoY) due to reduced payables owed to: building contractors (- RUB 405 million), repair contractors (- RUB 6 million), electricity transmission suppliers (- RUB 403 million), electric and thermal power suppliers in terms of loss compensation (- RUB 460 million) and increased payables due to other suppliers and contractors (+ RUB 74

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2014
Total payables	8,311	9,671	8,775
Suppliers and contractors	4,688	5,888	4,069
Bills payable	0	0	0
Taxes and levies	1,239	790	705
Advances received	1,201	1,746	2,484
Other payables	1,183	1,247	1,517

million). The contraction was mainly due to repayment of overdue payables owed to regional grid operators and electricity suppliers in terms of loss compensation;

- Taxes and levies: payables amounted to RUB 1,239 million (+ RUB 449 million or +57% YoY) due to increased VAT and income tax liabilities;

- Advances paid: payables totaled RUB 1,201 million (- RUB 545 million or -31% YoY);

- Other payables: payables totaled RUB 1,183 million (- RUB 64 million or -5% YoY) affected by lowered long-term connection advances and increased short-term liabilities.

## ANALYSIS OF CREDIT PORTFOLIO

Company's loans and borrowings as of 31.12.2016 totaled RUB 11,091.25 million

RUB thousand	31.12.2014	31.12.2015	31.12.2016	(2016/2015)	(2016/2015),%
Short-term loans and borrowings	1,933,760	7,400,000	-	-7,400,000	-100%
bonds	-	3,000,000	-	-3,000,000	-100%
Interest arrears	167,748	188,511	208,281	19,770	+10%
Long-term loans and borrowings	10,297,973	6,297,973	10,882,973	4,585,000	+73%
bonds	3,000,000	1,600,000	6,600,000	5,000,000	+313%
<b>TOTAL</b>	<b>12,399,482</b>	<b>13,886,484</b>	<b>11,091,254</b>	<b>-2,795,230</b>	<b>-20%</b>

As of the year-end the debt portfolio consists of long-term loans and borrowings. The Company has no credit contracts with principal debt over 5% of book asset value. Liabilities under each contract are discharged by the Company on time. Key creditors are largest state-controlled banks. As of 31.12.2016 the weighted average interest rate of the Company's debt portfolio totaled 9.92% p.a.

During the reported period the Company had RUB 3.0 billion BO-01 series, RUB 1.6 billion BO-02 series and RUB 5.0 billion BO-05 series exchange-traded bonds in floatation. BO-01 series bonds were placed at MICEX stock exchange 31.01.2013. The bond issue matured 28.01.2016. The bond coupon rate was set at 8.4% per annum for the entire maturity. A coupon yield for each coupon period was RUB 41.88 per 1 bond. BO-02 series bonds were placed at MICEX stock exchange, 24 November 2015 being effective date. The issue maturity is 10 years, designated offer due 7 years after the effective date and redemption offer due 4 years upon holders' consent. 1-14 coupon rates were set at 11.58% per annum, equal to coupon yield for each coupon period at RUB 57.74 per one bond. BO-05 series bonds were placed at MICEX stock exchange, 26 August 2016 being effective

date. The issue matures in 10 years, with two redemption offers due 3 and 5 years after effective date upon holders' consent. 1-20 coupon rates were set at 9.32% per annum, equal to coupon yield for each coupon period at RUB 46.47 per one bond.

In 2016 IDGC of Urals (OAO) has discharged its bond-related liabilities in full.

The Company has issued the following securities:

- BO-02 series exchange-traded bonds (4B02-02-32501-D) with total par value of RUB 3,000,000,000 to be redeemed on 3640th date since BO-02 series bond effective date;
- BO-03 series exchange-traded bonds (4B02-03-32501-D) with total par value of RUB 3,000,000,000 to be redeemed on 3640th date since BO-03 series bond effective date;

- BO-04 series exchange-traded bonds (4B02-04-32501-D) with total par value of RUB 4,000,000,000 to be redeemed on 3640th date since BO-04 series bond effective date;
- BO-05 series exchange-traded bonds (4B02-05-32501-D) with total par value of RUB 5,000,000,000 to be redeemed on 3640th date since BO-02 series bond effective date.

Registered BO-03 and BO-04 series exchange-trade bonds have not been placed during 2016.

## CREDIT RATINGS

As of the year-end  
Moody's Investors Service  
affirmed global corporate  
family rating at Ba2  
(Stable Outlook).

On 18 March 2016 Moody's revoked domestic ratings previously assigned to IDGC of Urals (OAO) on its own. The action followed Moody's termination of Russia's national scale ratings. The revocation of national-scale ratings has not affected assignment of global ratings.

## DESCRIPTION OF TARIFF POLICY

Electricity transmission and technological connection to electric networks, subject to state regulation, are core business lines of IDGC of Urals (OAO). The Company delivers services related to the transmission of electric energy and technological connection to electric networks in three regions: the Perm, Chelyabinsk and Sverdlovsk regions. Statutory and regulatory enactments are disclosed in "References" Appendix<sup>12,13,14,42-49</sup>.

### ELECTRICITY TRANSMISSION TARIFFS

All Company branches use long-term tariff regulation methodology (RAB), with long-term regulation parameters approved till 2017 in consort with it. Permenergo branch operates under RAB since 2009, Chelyabenergo and Sverdlovenergo branches joined RAB tariffs since 2011. Basic principles of the RAB regulation system are: i) firms, subject to regulation, raise huge credit resources; ii) return on investments guaranteed; iii) reliability and quality of service are aligned with tariffs. The following regulatory instruments stipulate long-term regulation parameters of the Company's branches: Permenergo branch<sup>48,50</sup>, Sverdlovenergo branch<sup>47,51</sup>, Chelyabenergo branch<sup>46,52,53</sup>. The Decree<sup>53</sup> revised basic operating expenses for our Chelyabenergo branch downwards from RUB 2,831.71 thousand to RUB 2,705.69 thousand. This action was followed by our reconciliation statement filed with the Federal Tariff Service. After examination of the reconciliation statement the Federal Tariff Service issued the decree<sup>54</sup> ordering the regional regulator to conduct a supportive analysis of the basic operating expenses. The regulator revised basic operating expenses upwards for 2016 tariffs to RUB 2,831.71 thousand.

Uniform ("pie") tariffs comprise expenses of all grid companies operating in the region to be annually prescribed for the next year during the long-term regulation period.

Pursuant to existing tariff regulation laws, a gross revenue requirement is subject to annual fine-tuning, adjusted for changed real and target calculations, executed investment program and achieved indicators of service reliability and quality. Electricity transmission tariffs are adopted by regional executive instrumentalities, liable for tariff regulation, on relevant territories of the Company's service area. Uniform ("pie") electricity transmission tariffs to be enforced in 2016 were approved by the following tariff decisions of the relevant regional regulators: Permenergo branch<sup>55,56</sup>, Sverdlovenergo branch<sup>57</sup> and Chelyabenergo branch<sup>58</sup>.

In the Perm region uniform ("pie") electricity transmission tariffs to be enforced in 2016 for other customers exceeded the set tariff ceiling due to the size of Permenergo's investment

program. Pursuant to the Federal law<sup>59</sup> last-mile contracts were terminated since 2014, except for several Russian regions with prolonged last-mile contracts. The Chelyabinsk region is enlisted as a region with last-mile contracts prolonged till 01.07.2017 for those consumers that concluded electricity transmission contracts combined with last-mile facilities rental contracts, compliant with tariff decisions by 01.09.2013. A standalone HV-1 tariff, calculated as FSK fee plus cross-subsidy fee, was introduced for such consumers. The cross-subsidy fee (RUB/thousand kWh) in the Chelyabinsk region totals RUB 440.0 (01.01.2015-30.06.2015), RUB 290.4 (01.07.2015-30.06.2016) and RUB 145.2 (01.07.2016-30.06.2017)