PJSC “FGC UES”

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

IAS 34 “INTERIM FINANCIAL REPORTING”

FOR THE THREE MONTHS ENDED 31 MARCH 2017

(UNAUDITED)

CONTENTS

Condensed Consolidated Interim Statement of Financial Position (Unaudited)
(in millions of Russian Rouble unless otherwise stated)

	Notes	31 March 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	5	847,878	846,695
Intangible assets		7,036	7,320
Investments in associates and joint ventures		1,162	1,160
Available-for-sale investments	6	79,517	76,537
Deferred income tax assets		15	14
Long-term accounts receivable	8	46,148	45,145
Other non-current assets		881	1,853
Total non-current assets		**982,637**	**978,724**
Current assets			
Cash and cash equivalents	7	41,784	44,404
Bank deposits	7	6,515	450
Accounts receivable and prepayments	8	61,204	58,187
Income tax prepayments		639	305
Inventories		16,334	14,900
Other current assets		113	140
Total current assets		**126,589**	**118,386**
TOTAL ASSETS		**1,109,226**	**1,097,110**
EQUITY AND LIABILITIES			
Equity			
Share capital: Ordinary shares	9	637,333	637,333
Treasury shares	9	(4,719)	(4,719)
Share premium		10,501	10,501
Reserves		283,929	281,759
Accumulated deficit		(192,444)	(198,273)
Equity attributable to shareholders of FGC UES		**734,600**	**726,601**
Non-controlling interest		487	1,816
Total equity		**735,087**	**728,417**
Non-current liabilities			
Deferred income tax liabilities		30,742	25,433
Non-current debt	11	236,948	236,954
Deferred income		901	919
Retirement benefit obligations		6,278	5,959
Total non-current liabilities		**274,869**	**269,265**
Current liabilities			
Accounts payable to shareholders of FGC UES		72	73
Current debt and current portion of non-current debt	11	28,262	29,660
Accounts payable and accrued charges	12	70,778	62,059
Income tax payable		158	7,636
Total current liabilities		**99,270**	**99,428**
Total liabilities		**374,139**	**368,693**
TOTAL EQUITY AND LIABILITIES		**1,109,226**	**1,097,110**

Authorised for issue and signed on behalf of the Management Board:

26 May 2017

Chairman of the Management Board — A. E. Murov

Head of Accounting and Financial Reporting – Chief Accountant — A.P. Noskov

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

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income (Unaudited)
(in millions of Russian Rouble unless otherwise stated)

	Notes	Three months ended 31 March 2017	Three months ended 31 March 2016
Revenues	13	49,796	52,540
Other operating income		2,245	789
Operating expenses	14	(30,164)	(31,501)
Loss on regain of control over subsidiary	20	(12,351)	-
Impairment of property, plant and equipment, net	5	49	(718)
Operating profit		**9,575**	**21,110**
Finance income	15	2,752	1,798
Finance costs	16	(1,379)	(2,656)
Share of result of associates		7	4
Profit before income tax		**10,955**	**20,256**
Income tax expense	10	(5,167)	(3,835)
Profit for the period		**5,788**	**16,421**
Other comprehensive income / (loss)			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit obligations		(223)	(259)
Income tax relating to items that will not be reclassified		13	16
Total items that will not be reclassified to profit or loss		**(210)**	**(243)**
Items that may be reclassified subsequently to profit or loss			
Change in fair value of available-for-sale investments	6	2,980	14,301
Foreign currency translation difference		(4)	87
Income tax relating to items that may be reclassified		(596)	(2,860)
Total items that may be reclassified to profit or loss		**2,380**	**11,528**
Other comprehensive income for the period, net of income tax		**2,170**	**11,285**
Total comprehensive income for the period		**7,958**	**27,706**
Proft / (loss) attributable to:			
Shareholders of FGC UES	17	5,829	16,526
Non-controlling interest		(41)	(105)
Total comprehensive income / (loss) attributable to:			
Shareholders of FGC UES		7,999	27,811
Non-controlling interest		(41)	(105)
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	17	**0.005**	**0.013**

Condensed Consolidated Interim Statement of Cash Flows (Unaudited)
(in millions of Russian Rouble unless otherwise stated)

	Notes	Three months ended 31 March 2017	Three months ended 31 March 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**10,955**	**20,256**
Adjustments to reconcile profit before income tax to net cash provided by operations			
Depreciation of property, plant and equipment	5,14	10,979	9,785
Gain on disposal of property, plant and equipment		(16)	(941)
Amortisation of intangible assets		329	331
Impairment of property, plant and equipment, net	5	(49)	718
Loss on regain of control over subsidiary	20	12,351	-
Share of result of associates		(7)	(4)
Accrual / (reversal) of allowance for doubtful debtors	14	678	(2,744)
(Reversal) / accrual of other provision for liabilities and charges		(1,338)	471
Finance income	15	(2,752)	(1,798)
Finance costs	16	1,379	2,656
Other non-cash operating income		-	(25)
Operating cash flows before working capital changes and income tax paid		**32,509**	**28,705**
Working capital changes:			
Increase in accounts receivable and prepayments		(3,200)	(1,701)
Increase in inventories		(1,436)	(2,468)
(Increase) / decrease in other non-current and current assets		(23)	174
Increase in accounts payable and accrued charges		3,554	734
(Decrease) / increase in retirement benefit obligations		(28)	4
Income tax paid		(8,251)	(399)
Net cash generated by operating activities		**23,125**	**25,049**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(15,849)	(18,197)
Proceeds from disposal of property, plant and equipment		151	2,316
Purchase of intangible assets		(45)	(90)
Redemption of promissory notes		2	52
Investment in bank deposits		(7,136)	(170)
Redemption of bank deposits		1,070	7,165
Loans given		(2)	(35)
Repayment of loans		1,000	-
Interest received		1,332	1,378
Net cash used in investing activities		**(19,477)**	**(7,581)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from non-current borrowings		22	-
Repayment of current borrowings		(350)	-
Repayment of lease		(37)	(37)
Interest paid		(5,903)	(9,890)
Net cash used in financing activities		**(6,268)**	**(9,927)**
Net (decrease) / increase in cash and cash equivalents		**(2,620)**	**7,541**
Cash and cash equivalents at the beginning of the period	7	**44,404**	**28,176**
Cash and cash equivalents at the end of the period	7	**41,784**	**35,717**

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)
(in millions of Russian Rouble unless otherwise stated)

	Notes	Attributable to shareholders of FGC UES						Non-controlling interest	Total equity
		Share capital	Share premium	Treasury shares	Reserves	Accumu-lated deficit	Total		
As at 1 January 2017		**637,333**	**10,501**	**(4,719)**	**281,759**	**(198,273)**	**726,601**	**1,816**	**728,417**
Comprehensive income for the period									
Profit for the period		-	-	-	-	5,829	**5,829**	(41)	**5,788**
Other comprehensive income / (loss), net of related income tax									
Change in fair value of available-for-sale investments	6	-	-	-	2,384	-	**2,384**	-	**2,384**
Remeasurements of retirement benefit obligations		-	-	-	(210)	-	**(210)**	-	**(210)**
Foreign currency translation difference		-	-	-	(4)	-	**(4)**	-	**(4)**
Total other comprehensive income		***-***	***-***	***-***	***2,170***	***-***	***2,170***	***-***	***2,170***
Total comprehensive income for the period		-	-	-	2,170	5,829	**7,999**	(41)	**7,958**
Changes in ownership									
Regain of control over subsidiary		-	-	-	-	-	-	(1,288)	**(1,288)**
Total changes in ownership		-	-	-	-	-	-	(1,288)	**(1,288)**
As at 31 March 2017		**637,333**	**10,501**	**(4,719)**	**283,929**	**(192,444)**	**734,600**	**487**	**735,087**

	Notes	Attributable to shareholders of FGC UES						Non-controlling interest	Total equity
		Share capital	Share premium	Treasury shares	Reserves	Accumu-lated deficit	Total		
As at 1 January 2016		**637,333**	**10,501**	**(4,719)**	**229,578**	**(252,980)**	**619,713**	**(75)**	**619,638**
Comprehensive income for the period									
Profit for the period		-	-	-	-	16,526	**16,526**	(105)	**16,421**
Other comprehensive income / (loss), net of related income tax									
Change in fair value of available-for-sale investments	6	-	-	-	11,441	-	**11,441**	-	**11,441**
Remeasurements of retirement benefit obligations		-	-	-	(243)	-	**(243)**	-	**(243)**
Foreign currency translation difference		-	-	-	87	-	**87**	-	**87**
Total other comprehensive income		***-***	***-***	***-***	***11,285***	***-***	***11,285***	***-***	***11,285***
Total comprehensive income for the period		-	-	-	11,285	16,526	**27,811**	(105)	**27,706**
As at 31 March 2016		**637,333**	**10,501**	**(4,719)**	**240,863**	**(236,454)**	**647,524**	**(180)**	**647,344**

Note 1. PJSC “FGC UES” and its operations

Public Joint-Stock Company “Federal Grid Company of Unified Energy System” (“FGC UES” or the “Company”) was established in June 2002 for the purpose of operating and managing the electricity transmission grid infrastructure of the Russian Unified National Electric Grid (the “UNEG”).

FGC UES and its subsidiaries (the “Group”) act as the natural monopoly operator for the UNEG. The Group’s principal operating activities consist of providing electricity transmission services, providing connection to the electricity grid, maintaining the electricity grid system, technical supervision of grid facilities and investment activities in the development of the UNEG. The majority of the Group’s revenues are generated via tariffs for electricity transmission, which are approved by the Russian Federal Antimonopoly Service (the “FAS” – legal successor of the Federal Tariff Service, abolished on 21 July 2015) based on the Regulatory Asset Base (“RAB”) regulation. FGC UES's main customers are distribution grid companies (“IDGCs”), certain large commercial end customers and retail electricity supply companies.

On 14 June 2013 the Government of the Russian Federation (the “RF”) transferred its stake in FGC UES to PJSC “Russian Grids” (former OJSC “IDGC Holding”), the holding company of an electricity distribution group, controlled by the Government of the RF. As at 31 March 2017, FGC UES was 80.13% owned and controlled by PJSC “Russian Grids”. The remaining shares are traded on Moscow Exchange and as Global Depository Receipts on the London Stock Exchange.

The registered office of the Company is located at 5A Akademika Chelomeya Street, Moscow 117630, Russian Federation.

Relationships with the state. The Government of the RF is the ultimate controlling party of FGC UES. The Government directly affects the Group's operations via regulation over tariff by the FAS and its investment program is subject to approval by both the FAS and the Ministry of Energy. Ultimately the Government supports the Group due to its strategic position in the Russian Federation. The Government's economic, social and other policies could have a material impact on the Group’s operations.

Business environment. The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements (“Consolidated Financial Statements”) reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

Seasonality of business. The Group’s services are not seasonal.

Note 2. Basis of preparation

Statement of compliance. These Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all the information required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Selected explanatory notes are included to explain events and transactions that are significant for understanding of changes in the Group's financial position and performance since the last annual consolidated financial statements. All information should be read in conjunction with the Group’s audited consolidated financial statements as at and for the year ended 31 December 2016 prepared in accordance with IFRS.

Critical accounting estimates and assumptions. In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2016, except for the following:

Note 2. Basis of preparation (continued)

Regain of control over OJSC “Nurenergo”(Note 20). On 29 June 2016 the Commercial Court of the Republic of Chechnya declared OJSC “Nurenergo”, the subsidiary of FGC UES, bankrupt and appointed an external bankruptcy manager. In accordance with Russian legislation on insolvency (bankruptcy), since the date a debtor is declared bankrupt, the power of all executive bodies of a debtor is terminated and transferred to a bankruptcy manager. Due to this fact FGC UES lost the right to direct relevant activities of the subsidiary and, therefore, lost control over the entity. As a result the Group derecognized the assets and liabilities of the OJSC “Nurenergo” as at 30 June 2016 and recognised gain amounted to RR 11,868 million in statement of profit and loss and other comprehensive income.
On 27 of January 2017, the North-Caucasian District State Commercial Court (the Court of Cassation) overturned the Court Ruling and sent the case to the Court of First Instance for re-trial. As at 31 March 2017 the Group analysed all the facts and conditions and concluded that the control over the subsidiary was regained.
As a result the Group recognized the assets and liabilities of the OJSC “Nurenergo” as at 31 March 2017 and recognised loss amounted to RR 12,351 million in statement of profit and loss and other comprehensive income.

Fair value. Management believes that the fair value of financial assets and liabilities carried at amortised cost is not significantly different from their carrying amounts, except for non-current and current debt (Note 11). The carrying value of trade payables and trade receivables less provision for doubtful debtors is assumed to approximate their fair value due to their short-term nature. The financial instruments of the Group carried at fair value represent available-for-sale investments (Note 6). The fair value of the available-for-sale investments is determined by the quoted prices (Level 1 inputs) in active markets for identical financial assets. There are no significant unobservable inputs used in measuring fair values of financial assets and liabilities

Note 3. Summary of significant accounting policies

Except for the adoption of the new standards and interpretations effective for the annual periods beginning on 1 January 2017, the accounting policies followed in the preparation of these Condensed Consolidated Interim Financial Statements were consistent with those applied in the consolidated financial statements as at and for the year ended 31 December 2016. Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual profit or loss.

Changes in accounting policies. Several new amendments to standards apply for the first time in 2017. However, they do not impact the Group’s annual consolidated financial statements or the condensed consolidated interim financial statements.

(in millions of Russian Rouble unless otherwise stated)

Note 4. Balances and transactions with related parties

Government-related entities. During the three months ended 31 March 2016 and 2017 the Group had the following significant transactions with government-related entities:

	Three months ended 31 March 2017	Three months ended 31 March 2016
Transmission revenue	38,452	35,623
Electricity sales	1,205	4,608
Construction services	539	2,337
Connection services	76	27
Purchased electricity for production needs	(1,605)	(1,825)

Significant balances with government-related entities are presented below:

	31 March 2017	31 December 2016
Cash and cash equivalents	34,482	32,794
Bank deposits	5,024	450
Long-term accounts receivable	45,520	44,512
Other non –current assets	16	16
Other current assets	7	7
Trade receivables (net of allowance for doubtful debtors of RR 7,558 million as at 31 March 2017 and RR 7,555 million as at 31 December 2016)	38,553	40,831
Other receivables (net of allowance for doubtful debtors of RR 1,094 million as at 31 March 2017 and RR 1,161 million as at 31 December 2016)	2,195	2,221
Available-for-sale investments	79,517	76,537
Advances to construction companies and suppliers of property, plant and equipment (included in CIP)	248	604
Accounts payable to shareholders of FGC UES	(72)	(73)
Non-current debt	(273)	(300)
Current debt	(115)	(465)
Accounts payable and accrued charges	(22,027)	(13,214)

As at 31 March 2017 and 31 December 2016 the Group had long-term undrawn committed financing facilities with government-related banks of RR 105,000 million with the interest rates not exceeding 14% and the maturity dates from 2018 to 2026. There were no short-term undrawn committed financing facilities with government-related banks as at 31 March 2017 and 31 December 2016

Tax balances and charges are disclosed in Notes 10, 12 and 14. Tax transactions are disclosed in the Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income.

Directors’ compensation. Total remuneration in the form of salary, bonuses and non-cash benefits (social security contributions are not included) provided to the members of the Management Board for the three months ended 31 March 2017 and 2016 was as follows:

	Three months ended 31 March 2017	Three months ended 31 March 2016
Short-term compensation, including salary and bonuses	43	41
Post-employment benefits and other long-term benefits	20	4
Total	**63**	**45**

No remuneration was provided to the members of the Board of Directors for the three months ended 31 March 2017 and 2016.

(in millions of Russian Rouble unless otherwise stated)

Note 5. Property, plant and equipment

	Buildings	Power trans-mission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Balance as at 1 January 2017	23,867	371,201	289,526	124,897	37,204	846,695
Additions	-	-	13	12,023	212	12,248
Transfers	(73)	81	366	(438)	64	-
Disposals	(13)	-	(67)	(12)	(46)	(138)
Balance as at 31 March 2017	23,781	371,282	289,838	136,470	37,434	858,805
Balance as at 1 January 2017	-	-	-	-	-	-
Depreciation charge	(106)	(3,800)	(5,311)	-	(1,762)	(10,979)
Reversal of impairment loss	-	-	-	49	-	49
Disposals	-	-	-	-	3	3
Balance as at 31 March 2017	(106)	(3,800)	(5,311)	49	(1,759)	(10,927)
Net book value as at 1 January 2017	23,867	371,201	289,526	124,897	37,204	846,695
Net book value as at 31 March 2017	23,675	367,482	284,527	136,519	35,675	847,878

	Buildings	Power trans-mission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Balance as at 1 January 2016	20,820	392,762	256,529	155,704	37,177	862,992
Additions	1	-	18	17,338	(130)	17,227
Transfers	2	298	1,131	(1,515)	84	-
Disposals	(63)	(97)	(1,221)	(1,288)	(28)	(2,697)
Balance as at 31 March 2016	20,760	392,963	256,457	170,239	37,103	877,522
Balance as at 1 January 2016	(356)	(15,350)	(17,335)	(2,850)	(5,987)	(41,878)
Depreciation charge	(103)	(4,022)	(4,166)	-	(1,494)	(9,785)
Impairment loss	-	-	-	(718)	-	(718)
Disposals	1	9	11	-	13	34
Balance as at 31 March 2016	(458)	(19,363)	(21,490)	(3,568)	(7,468)	(52,347)
Net book value as at 1 January 2016	20,464	377,412	239,194	152,854	31,190	821,114
Net book value as at 31 March 2016	20,302	373,600	234,967	166,671	29,635	825,175

Note 6. Available-for-sale investments

	1 January 2017	Change in fair value	31 March 2017
PJSC "INTER RAO UES"	74,520	3,267	77,787
PJSC "Russian Grids"	1,906	(287)	1,619
Other	111	-	111
Total	**76,537**	**2,980**	**79,517**

	1 January 2016	Change in fair value	31 March 2016
PJSC "INTER RAO UES"	21,480	14,152	35,632
PJSC "Russian Grids"	680	149	829
Other	111	-	111
Total	**22,271**	**14,301**	**36,572**

(in millions of Russian Rouble unless otherwise stated)

Note 7. Cash and cash equivalents and bank deposits

	31 March 2017	31 December 2016
Cash at bank and in hand	9,390	20,223
Cash equivalents	32,394	24,181
Total cash and cash equivalents	**41,784**	**44,404**

Cash equivalents include investments in short-term bank deposits with original maturities of three months or less and contractual interest rate of 7.23-9.72% as at 31 March 2017 and 7.23-10.35% as at 31 December 2016.

Bank deposits

	Interest rate	31 March 2017	31 December 2016
JSC "Rosselkhozbank"	9.29%	4,000	-
PJSC “Bank Otkritie Financial Corporation”	9,85-10,12%	1,491	-
JSC “Gazprombank”	9.72%	1,024	295
PJSC “VTB”	-	-	155
Total bank deposits		**6,515**	**450**

Fair value of bank deposits approximates their carrying value.

Note 8. Accounts receivable and prepayments

Long-term trade receivables mainly relate to the contracts of technological connection services provided that imply deferred inflow of cash and to restructured receivable balances for transmission services that are expected to be settled within the period exceeding 12 months from the period end.

Long-term receivables relating to the contracts of technological connection are paid in equal parts every six months with an interest accrued on the actual outstanding balances at the rate of 6% per annum. Fair value of consideration receivable for these contracts is determined using present value technique based on estimated future cash flows and the discount rates of 9.33-9.63%.

Long-term trade receivables are stated net of of allowance for the doubtful debtors of RR 546 million as at 31 March 2017 6 and RR 524 million as at 31 December 2016).

	31 March 2017	31 December 2016
Trade receivables		
(Net of allowance for doubtful debtors of RR 11,369 million as at 31 March 2017 and RR 12,117 million as at 31 December 2016)	45,812	47,824
Other receivables		
(Net of allowance for doubtful debtors of RR 2,821 million as at 31 March 2017 and RR 3,513 million as at 31 December 2016)	5,907	6,410
VAT recoverable	2,365	580
Advances to suppliers		
(Net of allowance for doubtful debtors of RR 1,818 million as at 31 March 2017 and RR 2,054 million as at 31 December 2016)	6,900	3,127
Tax prepayments	220	246
Total accounts receivable and prepayments	**61,204**	**58,187**

Trade and other receivables are not interest-bearing and are largely due in 30 to 90 days as at 31 March 2017 and 31 December 2016. Given the short period of the trade and other receivables repayment, the fair value of such receivables approximates their book value.

Note 9. Equity

Share capital

	Number of shares issued and fully paid		Share Capital	
	31 March 2017	**31 December 2016**	**31 March 2017**	**31 December 2016**
Ordinary shares	1,274,665,323,063	1,274,665,323,063	637,333	637,333

As at 31 March 2017 the authorised share capital comprised 1,346,805,824 thousand ordinary shares with a nominal value of RR 0.5 per share.

Treasury shares. The Group through a subsidiary holds 13,727,165 thousand ordinary shares in treasury at a total cost of RR 4,719 million (as at 31 December 2016: 4,719 million).

(in millions of Russian Rouble unless otherwise stated)

Note 10. Income tax

Income tax expense is recognised based on the management’s best estimate of the weighted average annual income tax rate expected for the full financial year.

During the three months ended 31 March 2017 and 2016 most entities of the Group were subject to tax rates of 20 percent on taxable profit.

Note 11. Non-current debt

	Effective interest rate	Due	31 March 2017	31 December 2016
Certified interest-bearing non-convertible bearer bonds:				
with fixed rates	7.5-9.35%	2019-2051	95,997	96,179
with variable rates	CPI+1-2.5%	2027-2050	151,251	151,727
Loan participation notes (LPNs)	8.45%	2019	17,574	17,943
Finance lease liabilities	9.50%	2018	388	415
Total debt			**265,210**	**266,264**
Less: current portion of non-current bonds and LPNs			(28,147)	(29,195)
Less: current portion of finance lease liabilities			(115)	(115)
Total non-current debt			**236,948**	**236,954**

All debt instruments are denominated in Russian Rouble.

Reconciliation between carrying and fair values of financial liabilities is presented bellow.Fair value of level 1 bonds are determined based on quoted market prices at Moscow Exchange and Irish Stock Exchange.

		31 March 2017		31 December 2016	
	Level	Fair value	Carrying value	Fair value	Carrying value
Non-convertible bearer bonds with fixed rates and loan participation notes	1	110,046	113,284	109,355	113,856
Non-convertible bearer bonds with variable rates	1	9,270	10,126	9,761	10,411
Total debt		**119,316**	**123,410**	**119,116**	**124,267**

Other non-current debt with floating rates classified into fair value hierarchy level 3 represent non-quoted non-convertible bearer bonds with floating rate lined to inflation with a premium of 1-2.5%, which is a unique instrument with specific market. Hence, the management believes carrying amount of these instruments approximates its fair value.

As at 31 March 2017 the Group had long-term undrawn committed financing facilities of RR 152,500 million (as at 31 December 2016: RR 152,500 million) which could be used for the general purposes of the Group.

Note 12. Accounts payable and accrued charges

	31 March 2017	31 December 2016
Trade payables	19,818	8,670
Accounts payable to construction companies and suppliers of property, plant and equipment	20,561	23,759
Advances received	16,956	15,091
Provision for legal claims	2,354	3,692
Accounts payable to employees	2,583	2,313
Taxes other than on income payable	6,114	7,221
Other creditors and accrued liabilities	2,392	1,313
Total accounts payable and accrued charges	**70,778**	**62,059**

(in millions of Russian Rouble unless otherwise stated)

Note 13. Revenue

	Three months ended 31 March 2017	Three months ended 31 March 2016
Transmission fee	45,859	41,601
Electricity sales	2,569	5,744
Construction services	752	2,953
Connection services	100	1,670
Other revenues	516	572
Total revenues	**49,796**	**52,540**

Note 14. Operating expenses

	Three months ended 31 March 2017	Three months ended 31 March 2016
Depreciation of property, plant and equipment	10,979	9,785
Employee benefit expenses and payroll taxes	5,925	6,187
Purchased electricity	4,135	6,629
Property tax	2,774	2,352
Fuel for mobile gas-turbine electricity plants	2,026	3,559
Subcontract works for construction contracts	771	2,582
Accrual / (reversal) of allowance for doubtful debtors	678	(2,744)
Business trips and transportation expenses	419	398
Rent	392	309
Security services	364	356
Amortisation of intangible assets	329	331
Electricity transit	241	571
Other expenses	1,131	1,186
Total operating expenses	**30,164**	**31,501**

Note 15. Finance income

	Three months ended 31 March 2017	Three months ended 31 March 2016
Interest income	1,580	1,763
Amortisation of discount	1.139	-
Foreign currency exchange differences	16	22
Other finance income	17	13
Total finance income	**2,752**	**1,798**

Note 16. Finance costs

	Three months ended 31 March 2017	Three months ended 31 March 2016
Interest expense	4,865	8,304
Net interest on the defined benefit obligations	124	172
Foreign currency exchange differences	60	55
Total finance cost	**5,049**	**8,531**
Less: capitalised interest expenses	(3,670)	(5,875)
Total finance cost recognised in profit or loss	**1,379**	**2,656**

Note 17. Earnings per ordinary share for profit attributable to shareholders of FGC UES

	Three months ended 31 March 2017	Three months ended 31 March 2016
Weighted average number of ordinary shares (millions of shares)	1,260,938	1,260,938
Profit attributable to shareholders of FGC UES (millions of RR)	5,829	16,526
Weighted average earning per share – basic and diluted (in RR)	**0.005**	**0.013**

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Note 18. Contingencies, commitments, operating and financial risks

There have been no changes in political environment, insurance policies and environmental matters during the three months ended 31 March 2017 in comparison with those described in the Group’s consolidated financial statements for the year ended 31 December 2016 as well as there have been no changes in operating and financial risk management policies since year end.

Legal proceedings. In the normal course of business the Group entities may be a party to certain legal proceedings. In the opinion of management, currently there are no existing legal proceedings or claims outstanding or final dispositions which will have a material adverse effect on the financial position of the Group, except for the following. As at 31 March 2017 claims made by suppliers of property, plant and equipment and other counterparties to the Group amounted to RR 3,859 million. Management of the Group is unable to assess the ultimate outcome of the claims and the outflow of financial resources to settle such claims, if any.

As at 31 March 2017 the Group's subsidiary, OJSC ”Nurenergo” was engaged in a number of litigations involving claims amounting in total to RR 15,711 million, for collection of amounts payable for electricity purchased by OJSC ”Nurenergo”. The amount is recorded within accounts payable. No additional provision has been made as the Group's management believes that these claims are unlikely to result in any further liabilities.

Tax contingency. Russian tax and customs legislation is subject to varying interpretation when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by the relevant regional and federal authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of decision to perform tax review. Under certain circumstances reviews may cover longer periods.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on these consolidated financial statements.

As at 31 March 2017 management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency and customs positions will be sustained.

Capital commitments related to construction of property, plant and equipment. Future capital expenditures for which contracts have been signed amount to RR 201,526 million as at 31 March 2017 (as at 31 December 2016: RR 210,968 million) including VAT. These amounts include accounts payable to construction companies and suppliers of property, plant and equipment in the amount of RR 20,561 million as at 31 March 2017 (as at 31 December 2016: RR 23,759 million) (Note 12).

Note 19. Segment information

The Group operates wihin one operating segment. The Group’s single primary activity is provision of electricity transmission services within the Russian Federation which is represented as Transmission segment. There are no differences from the last annual consolidated financial statements in the basis of segmentation.

The Board of Directors of the Company has been determined as chief operating decision maker (the “CODM”) of the Group which generally analyses information relating to Transmission segment. The Board of Directors does not evaluate financial information of other components of the Group to allocate resources or assess performance and does not determine these components as segments. The key indicator of the transmissions segment performance is return on equity ratio (ROE). It is calculated based on the statutory financial statements prepared according to RAR as net profit divided by net assets. Accordingly, the measure of transmission segment profit or loss analysed by the CODM is net profit of segment based on the statutory financial statements prepared according to RAR. The other information provided to the CODM is also based on statutory financial statements prepared according to RAR.

(in millions of Russian Rouble unless otherwise stated)

Note 19. Segment information (continued)

	Transmission segment – based on statutory financial statements prepared according to RAR	
	Three months ended 31 March 2017	**Three months ended 31 March 2016**
Revenue from external customers	45,796	43,310
Intercompany revenue	79	319
Total revenue	**45,875**	**43,629**

	31 March 2017	**31 December 2016**
Total reportable segment assets (RAR)	1,397,077	1,398,048
Total reportable segment liabilities (RAR)	419,169	428,746

A reconciliation of the reportable segment's revenue to the Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2017 and 2016 is presented below:

	Three months ended 31 March 2017	**Three months ended 31 March 2016**
Total revenue from segment (RAR)	**45,875**	**43,629**
Reclassification between revenue and other income	405	208
Non-segmental revenue	3,702	9,022
Elimination of intercompany revenue	(79)	(319)
Other adjustments	(107)	-
Total revenue (IFRS)	**49,796**	**52,540**

A reconciliation of the reportable segment's profit to the Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2017 and 2016 is presented below:

	Three months ended 31 March 2017	**Three months ended 31 March 2016**
Profit for the period (RAR)	**8,606**	**10,205**
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	10,152	9,958
Reversal of impairment of property, plant and equipment	49	2,674
Financial instruments		
Discounting of long-term accounts receivable	1,559	-
Discounting of promissory notes	7	-
Consolidation		
Reversal of adjustments to the carrying value of intercompany promissory notes	(930)	(2,789)
Reversal of impairment of investments in subsidiaries	325	-
Other		
Adjustment to allowance for doubtful debtors	2,243	(2,378)
Adjustment to provision for legal claims	1,338	(457)
Accrual of retirement benefit obligations	(60)	27
Write-off of research and development to expenses	31	-
Share of result of associates	7	4
Deferred tax adjustment	(2,022)	678
Other adjustments	2,249	(1,300)
Loss on regain of control over subsidiary	(12,351)	-
Non-segmental other operating loss	(5,415)	(201)
Profit for the period (IFRS)	**5,788**	**16,421**

Information on revenue for separate services and products of the Group is presented in Note 13. The Group performs most of its activities in the Russian Federation and does not have any significant revenue from foreign customers or any non-current assets located in foreign countries.

The major customers of the Group are government-related entities. The amounts of revenue from such entities are disclosed in Note 4. The Group has no other major customers with turnover over 10 percent of the Group revenue.

Note 20. Regain of control over subsidiary

On 31 March 2017 the Group recognised its investment in OJSC “Nurenergo” as the Group regained control over the entity (Note 2).

The recognition of the subsidiary had the following effect on the Group’s assets and liabilities at the date of recognition:

	Carrying amount at date of regain of control
Accounts receivable	120
Accounts payable	(15,723)
Total negative net assets and liabilities of subsidiary	(15,603)