

**Federal Grid
Company**



**of Unified
Energy System**

NOTES

**TO 2017 ANNUAL FINANCIAL STATEMENTS OF PUBLIC JOINT-
STOCK COMPANY “FEDERAL GRID COMPANY OF UNIFIED
ENERGY SYSTEM”**

I.	GENERAL INFORMATION.....	3
1.1	Company Information.....	3
1.2	Core Activities	4
1.3	Executive and Supervisory Bodies	6
1.4	Separate business units of the Company.....	8
II.	ACCOUNTING POLICY	11
2.1	Basis for Preparation.....	11
2.2	Assets and Liabilities in Foreign Currencies	11
2.3	Short-Term and Long-Term Assets and Liabilities	11
2.4	Fixed assets.....	12
2.5	Intangible assets.....	14
2.6	Research and Development (R&D)	14
2.7	Inventories	15
2.8	Recognition of financial investments	15
2.9	Deferred Expenses	16
2.10	Accounts Receivable.....	17
2.11	Authorized, Additional and Reserve Capital	17
2.12	Credits and Loans Received	17
2.13	Income and Expense	18
2.14	Estimated liabilities	19
2.15	Correction of Errors.....	20
2.16	Cash Equivalents and Reflection of Cash Flows in the Statement of Cash Flows	20
2.17	Changes in the Company's Accounting Policies	21
2.18	Data from Prior Reporting Periods	21
III.	DISCLOSURE OF MATERIAL INDICATORS.....	22
3.1	Capital and Reserves.....	22
3.2	Intangible assets.....	22
3.3	Fixed assets.....	23
3.4	Miscellaneous Non-Current Assets	24
3.5	Taxes.....	24
3.6	Research and Development (R&D)	26
3.7	Long-Term Financial Investments.....	26
3.8	Short-term Financial Investments	29
3.9	Accounts Receivable.....	31
3.10	Inventory.....	35
3.11	Other Current and Non-current Assets	35
3.12	Credits and Loans Received	35
3.13	Accounts Payable.....	38
3.14	Deferred income	39
3.15	Miscellaneous Income and Expenses	39
3.16	Earnings per Share	40
3.17	Related Parties	41
3.18	Relations with Non-state Pension Fund of the Electric Power Industry.....	45
3.19	Cash and Cash Equivalents.....	45
3.20	Information by Segment	46
3.21	Securing Liabilities	47
3.22	Estimated Liabilities, Contingent Liabilities and Contingent Assets	47
3.23	Information about expenses associated with energy resources.....	49
3.24	Environmental Indicators.....	49
3.25	Financial Crisis	50
3.26	Events after the Reporting Date.....	51

GENERAL INFORMATION

1.1 Company Information

Public Joint-Stock Company “Federal Grid Company of Unified Energy System” (hereinafter referred to as the “Company”) is incorporated pursuant to the resolutions of JSC RAO “UES of Russia” Board of Directors dated January 25, 2002 and May 7, 2002, and pursuant to the resolution adopted by the Management Board of JSC RAO “UES of Russia” dated January 21, 2001 in accordance with Regulation of the Government of the Russian Federation No. 526 “On reforming the electric power industry of the Russian Federation” dated July 11, 2001.

The Articles of Association of the Company are approved by Order No. 42r of JSC RAO “UES of Russia” on June 18, 2002, registered with Justice Institution – Leningrad Regional Registration Chamber on June 25, 2002. The revised version of the Articles of Association is approved by resolution of the General Meeting of Company Shareholders on June 29, 2017 and registered with Interdistrict Inspectorate of the Federal Tax Service No. 46 for Moscow.

The Company has its place of business and registered office at: 5a, Akademika Chelomeya St., Moscow, 117630.

The Company is registered with the Unified State Register of Legal Entities – Certificate of State Registration of Legal Entity and Inclusion in the Register under No. 00/03124 is issued by the Leningrad Regional Registration Chamber on June 25 2002. Re-registration – Certificate of Inclusion in the Unified State Register of Legal Entities Regarding a Legal Entity Registered prior to July 1, 2002 under No. 1024701893336 dated August 20, 2002 is issued by the Inspectorate of the Russian Ministry of Taxation for Tosno District of the Leningrad Region.

The Company was incorporated without limitation as to the period of its operation and shall operate in accordance with the Russian Civil Code, Federal Law No. 208-FZ “On Joint-Stock Companies” of December 26, 1995, Federal Law No. 35-FZ “On the Electric Power Industry” of March 26, 2003, other Russian normative legislative acts and these Articles of Association as an organization intended for managing the Unified National (All-Russian) Electric Grid (the “UNEG”), which provides for the integrity of technologic management and the rendering of electric power transmission service via UNEG to electric power industry participants on a contract basis for a fee.

The Company owns independent assets accounted for on its Balance Sheet and may, in its own name, acquire and exercise civil rights and perform civil duties, act as a claimant and defendant in court. The Company shall be entitled to open any bank accounts in the Russian Federation and abroad in accordance with the established procedure. The Company shall be held liable for its obligations to the full extent of its property.

In accordance with Federal Law No. 147-FZ “On Natural Monopolies” of August 17, 1995, the Federal Energy Commission of the Russian Federation by its Regulation No. 49-e/1 dated June 25, 2003 included the Company in Section I “Services for Electric and/or Thermal Energy Transmission” of the

Register of subjects in natural monopolies in the fuel and energy complex, over which the government regulation and control are exercised, under registration number 47.1.110.

As of December 31, 2017, the registered authorized capital of the Company was RUB 637,332,661,531.50. The Company placed 1,274,665,323,063 ordinary registered uncertificated shares with a par value of RUB 0.50 each.

The majority shareholder of the Company as of December 31, 2017 was PJSC ROSSETI. As of December 31, 2017, the stake held by PJSC ROSSETI in the Company's authorized capital was 80.13%.

The average headcount of the Company in 2017 was 21,876 employees (in 2016: 22,150 employees).

The Company's stock has been traded within the Russian Trade System and on the Moscow Interbank Currency Exchange (MICEX) since July 2008.

On June 24, 2008, the Company secured a permit from the FFMS of Russia to place and float abroad its equity securities of all issues of ordinary shares of the Company registered as of today, in the amount not exceeding 287,269,492,431 ordinary shares of the Company. The program for the global depository receipts (hereinafter "GDR") which have not been admitted to listing under Regulations S and Rule 144A, certifying the rights carried by the Company's ordinary shares, was established in connection with the reorganization of the Company and JSC RAO UES of Russia and launched on June 30, 2008.

One depository receipt was represented by 500 ordinary registered uncertificated shares of the Federal Grid Company. THE BANK OF NEW YORK MELLON (BNY Mellon) is a depository bank under the program.

In 2011, the Company carried out a technical listing of depository receipts on the Primary Stock Market of the London Stock Exchange. On March 28, 2011, the Company's GDRs were first traded on the London Stock Exchange.

As of December 31, 2017, the volume of the depository receipts program of FGC amounted to 835,109 pcs, which is around 0.033% of the authorized capital.

1.2 Core Activities

The Company has been established for the purpose of ensuring the energy integrity (safety) of the Russian Federation, as well as reliable, qualitative and affordable power supply to consumers of the Russian Federation for a long term, including:

- ensuring reliable functioning, increasing performance and developing the UNEG, including isolated energy systems;
- supporting and developing the infrastructures (lines and transformers) which allow delivering the capacity of plants and transmitting electricity via UNEG to distribution grids, wholesale market players and other persons that own beneficially or upon such other ground as provided for in federal laws the electric power facilities duly connected to UNEG on a contract basis for a fee;
- creating conditions for effective functioning of the wholesale electricity market;

- assisting in exercising effective management and control of state-owned property representing the industry's electric grid facilities;
- providing organizational and technical support for maintenance of a register of the electric grid facilities incorporated in UNEG, as well as recording on this register any data about the electric grid facilities duly classified as part of UNEG;
- implementing the state policy in the electric power sector;
- carrying out efficient operation and exercising centralized process control over the electric grids incorporated in the Unified Energy System of Russia;
- operating and developing telecommunications infrastructure in the electricity market;
- delivering a common strategy for development of the electric grid facilities of the Russian Federation in the field of investment and capital raising in order to accomplish system-wide objectives relating to development of electric grids and the Unified Energy System of Russia;
- developing and implementing research and development policy and introducing new advanced equipment and technologies;
- making profit.

The Company shall be entitled to carry out the following activities:

- to provide services involving transmission and distribution of electric energy;
- to provide services involving connection to power grids;
- to provide communication services;
- to provide services involving collection, transfer and processing of technical data, including measurement and metering data;
- to perform diagnostics, operation and repairs of power grids and other power grid facilities and to exercise process control over them;
- to conduct diagnostics, to operate and repair process communication networks, measuring and metering devices, protection relay equipment, emergency control automatic systems and other equipment related to the operation of power grid facilities, as well as equipment intended for management of Russia's UES;
- to develop long-term forecasts, future and current plans for power grid complex development, as well as for targeted, integrated scientific, technical, economic and social programs;
- to develop electric power grids and other power grid facilities, to carry out design, engineering surveys and perform construction, renovation, re-equipment, installation and adjustment work;
- to develop process communication networks, measuring and metering devices, protection relay equipment, emergency control automatic systems and other process equipment related to the operation of power grid facilities, as well as equipment intended for management of Russia's UES, to conduct design, engineering survey, and perform construction, renovation, re-equipment, installation and adjustment work;
- to provide services involving transmission and distribution of thermal energy using thermal networks owned by the Company and used for the Company's process needs;

- to operate explosive, chemical and fire-hazardous production facilities connected with the operation of power grid facilities;
- to carry out activities aimed at preventing and extinguishing fires, to install, repair and maintain fire-safety equipment for buildings and structures connected with the operation of power grid facilities;
- to ensure process control and conduct expert evaluation of the industrial and labor safety situation at power grid facilities;
- to store oil products used for processing purposes;
- to carry out foreign economic activities, cooperation with foreign firms in areas such as commerce, economics, science and technology in accordance with the common technical policy of the power grid complex within the scope of ensuring the Company's activities as stipulated by its Articles of Association for the purpose of integration into the global energy markets;
- to perform educational activities for the purpose of training, retraining and educating personnel, including verifying personnel's awareness concerning the norms and rules related to the design and operation of electric installations, labor and fire safety, as well as other current regulatory documents;
- to engage in the transportation of cargoes and passengers by motor, railway and air transport;
- to operate, maintain and repair motor, railway and air transport vehicles and lifting devices used for process purposes;
- to implement organizational, practical and preventive measures to ensure integrated safety and security (anti-terrorism and crime protection, economic security, anti-corruption and information security);
- to organize and implement measures related to mobilization training, civil defense, emergency situations and protection of state secret data as stipulated by current laws;
- to perform any other activities which are not prohibited by the current laws of the Russian Federation and which promote achievement of the goals and objectives stipulated by the Articles of Association of the Company.

1.3 Executive and Supervisory Bodies

The Company's Board of Directors was elected by the resolution of the extraordinary General Meeting of Shareholders dated September 15, 2017.

As of December 31, 2017, the Company's Board of Directors was composed of:

No.	Full Name	Position
1	Pavel Sergeyeovich Grachev	Director General of Polyus Gold International. Chairman of the Board of Directors of OJSC PIK Group, Member of the Board of Directors of OJSC Polyus Gold, OJSC Uralkali, OJSC Polymetal
2	Andrey Alexandrovich Demin	Member of the Management Board, PJSC ROSSETI
3	Igor Alexandrovich Kamenskoi	Chairman of the Board of Directors, Renaissance Capital LLC
4	Andrey Yevgenyevich Murov	Chairman of the Management Board of PJSC FGC

No.	Full Name	Position
		UES
5	Mikhail Igorevich Poluboyarinov	Director of the Infrastructure Department, Deputy Chairman of Vnesheconombank, First Deputy Chairman of Vnesheconombank – Member of the Management Board. Member of the Boards of Directors of PJSC ROSSETI, CJSC Lider, PJSC Rostelecom, PJSC Aeroflot, Member of the Supervisory Board of JSC AHML.
6	Yegor Vyacheslavovich Prokhorov	Deputy Director General for Finance, PJSC ROSSETI, Member of the Boards of Directors of PJSC Lenenergo, PJSC MRSK of Siberia
7	Nikolai Pavlovich Roshchenko	Member of the Management Board of “Market Board” Partnership
8	Sergei Vladimirovich Sergeyev	Deputy Director General for Major Construction, PJSC ROSSETI
9	Pavel Nikolayevich Snikkars	Director of the Department for Power Industry Development of the Russian Ministry of Energy
10	Ferlenghi Ernesto	Senior Advisor in Russia, Eni Group of companies; Senior Advisor for Business Development of Saipem SpA oil company and Advisor in SIIRTEC NIGI Spa and SIAD RUS (oil and gas companies)
11	Oksana Vladimirovna Shatokhina	Deputy Director General for Economy, PJSC ROSSETI, Member of the Board of Directors of PJSC “MRSK of Center”

The following changes to members of the Board of Directors were made pursuant to the resolution of the extraordinary General Meeting of Shareholders dated September 15, 2017:

- elected: M.I. Poluboyarinov, O.V. Shatokhina
- dismissed: O.M. Budargin, S.N. Mironosetsky

As of December 31, 2017, the Company’s Management Board was composed of:

No.	Full Name	Position
1	Andrey Yevgenyevich Murov	Chairman of the Management Board
2	Alexander Arkadyevich Zaragatsky	First Deputy Chairman of the Management Board
3	Roman Yevgenyevich Filimonov	First Deputy Chairman of the Management Board
4	Dmitry Aleksandrovich Vodennikov	Deputy Chairman of the Management Board
5	Aleksey Valeryevich Molskiy	Deputy Chairman of the Management Board
6	Nikolay Igorevich Pozdnyakov	Deputy Chairman of the Management Board
7	Sergey Sergeyevich Terebulin	Deputy Chairman of the Management Board
8	Maria Gennadievna Tikhonova	Deputy Chairman of the Management Board

As of December 31, 2017, the Company’s Internal Audit Commission was composed of:

No.	Full Name	Position
1	Tatiana Valentinovna Zobkova	Section Head of the Department, Russian Ministry of Energy
2	Dmitry Igorevich Simochkin	Deputy Unit Manager, Rosimushchestvo

No.	Full Name	Position
3	Vladimir Vasilyevich Khvorov	Lead Expert, Unit within the Department of the Ministry of Economic Development of the Russian Federation
4	Aleksandr Gennadyevich Batalov	Director of the Economic Security and Anti-Corruption Enforcement Department, PJSC ROSSETI
5	Marina Alekseyevna Lelekova	Director of the Department for Supervision and Audit of PJSC ROSSETI

1.4 Separate business units of the Company

The existence of separate business units is the specific feature of the Company's structure that has an impact on selecting ways and methods of accounting.

All of the Company's business units are structurally grouped by type of activity and geographic region.

Separate business units are not corporate entities; they are given property by the Company and act in accordance with:

- the regulations for separate business units;
- other internal regulatory documents adopted by the Company.

Separate business units in the respective place of business:

- perform part of the Company's functions depending on their production capacity within the limits established in the laws of the Russian Federation and the Company's internal regulatory documents;
- collect, process and submit to the Company information necessary for the Company's ordinary course of business;
- perform any other works and functions arising from the goals and objectives of the Company in accordance with the resolutions adopted by the Company's management bodies.

As of December 31, 2017, the Company had the following branches:

1. Backbone Power Grids of Center, a branch of PJSC FGC UES;
2. Backbone Power Grids of North-West, a branch of PJSC FGC UES;
3. Backbone Power Grids of Volga, a branch of PJSC FGC UES;
4. Backbone Power Grids of South, a branch of PJSC FGC UES;
5. Backbone Power Grids of the Urals, a branch of PJSC FGC UES;
6. Backbone Power Grids of Western Siberia, a branch of PJSC FGC UES;
7. Backbone Power Grids of Siberia, a branch of PJSC FGC UES;
8. Backbone Power Grids of East, a branch of PJSC FGC UES;
9. Valdai Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
10. Verkhne-Donskoye Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
11. Backbone Power Grids Enterprise of Volga and Don Region, a branch of PJSC FGC UES;
12. Vologda Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
13. Moscow Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
14. Priokskoye Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
15. Chernozymnoye Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
16. Bely Rast Specialized Production Base, a branch of PJSC FGC UES;
17. Karelia Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
18. Leningradskoye Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
19. Novgorod Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
20. Northern Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
21. Nizhne-Volzhskoye Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
22. Samara Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
23. Backbone Power Grids Enterprise of Mid-Volga Region, a branch of PJSC FGC UES;
24. Nizhny Novgorod Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
25. Kaspian Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
26. Kuban Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
27. Rostov-on-Don Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
28. Sochi Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
29. Stavropol Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
30. Orenburg Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
31. Perm Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
32. Sverdlovskoye Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
33. Yuzhno-Uralskoye Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
34. Central Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
35. Southern Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
36. Yamalo-Nenets Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
37. Eastern Backbone Power Grids Enterprise, a branch of PJSC FGC UES;

38. Trans-Baikal Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
39. West Siberian Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
40. Krasnoyarsk Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
41. Kuzbass Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
42. Khakas Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
43. Amur Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
44. Primorye Backbone Power Grids Enterprise, a branch of PJSC FGC UES;
45. Khabarovsk Backbone Power Grids Enterprise, a branch of PJSC FGC UES.

II. ACCOUNTING POLICY

Financial statements of the Company are prepared based on the following accounting policy.

2.1 Basis for Preparation

The financial statements of the Company are prepared based on the accounting and reporting standards applicable in the Russian Federation, in particular Federal Law No. 402-FZ “On Accounting” dated December 6, 2011, Provision on business accounting “Accounting Policy in Organization” (Russian Accounting Standards (RAS) 1/2008) approved by Decree No. 106n of the Russian Ministry of Finance dated October 6, 2008, Provision on business accounting and financial statements in the Russian Federation approved by Decree of the Ministry of Finance No. 34n dated July 29, 1998, and Provision on business accounting “Financial Statements in Organization” (Russian Accounting Standards (RAS) 4/99) approved by Decree of the Ministry of Finance No. 43n dated July 6, 1999.

2.2 Assets and Liabilities in Foreign Currencies

The business transactions performed in a foreign currency were accounted for at the official foreign currency to the Russian ruble exchange rate which was effective as of the transaction date. The amount of the Company’s cash on hand, cash in banks accounts (bank deposits), monetary and payment documents, securities (with the exception of shares), cash involved in settlements, including debt obligations (except for the advance payments received and made and prepayment) denominated in a foreign currency is recorded on the books in the amounts calculated based on the official foreign exchange rates as of December 31, 2017. The foreign exchange rates as of the above-mentioned date were RUB 57.6002 for 1 USD (against RUB 60.6569 as of December 31, 2016, and RUB 72.8827 as of December 31, 2015), and RUB 68.8668 for 1 EUR (against RUB 63.8111 as of December 31, 2016, and RUB 79.6972 as of December 31, 2015).

The foreign exchange differences which emerged during the year with respect to transactions with assets and liabilities in foreign currencies, as well as those in their conversion as of the reporting date are treated as financial results as miscellaneous income and expenses.

Gains or losses on foreign currency translation are shown (without detail) in the Company’s Profit and Loss Statement.

2.3 Short-Term and Long-Term Assets and Liabilities

Financial investments, accounts receivable and payable, including loans and advances due and payable, are recorded as short-term investments on the Balance Sheet if their circulation (maturity) period is 12 months or less. The remaining classes of the above-mentioned assets and liabilities are represented as long-term ones.

The interest on long-term financial investments, long-term loans and advances made and long-term loans and advances received is recorded on the Balance Sheet in line 1235 “Accounts receivable (due within 12 months of the reporting date)” and line 1510 “Borrowings” respectively.

Advances for investments in non-current assets are recorded as noncurrent assets in line 1173, inclusive of VAT. Advances made (other than advances against non-current assets) are recorded in line 1238, inclusive of VAT.

Advances received are recorded in line 1525, inclusive of VAT.

2.4 Fixed assets

Tangible assets are recognized as fixed assets provided that all of the terms and conditions set forth in paragraph 4 of RAR 6/01 (Decree of the Ministry of Finance of the Russian Federation No. 26n dated March 30, 2001) are fulfilled. Fixed assets include facilities which are used by the Company in the manufacture of products, performance of work or rendering of services or for the Company's administrative needs and whose useful life is more than 12 months. The Company does not establish the limit on the initial (replacement) value of fixed assets.

The Company's specialized residential real estate beneficially owned by the Company is recorded as fixed assets and accounted for separately.

The Company's specialized residential real estate is recognized as service plants and facilities (SPF).

Books, booklets and other print materials purchased are not recognized as fixed assets for purposes of accounting. Expenses associated with their purchase are treated as expenses of the period in which they were incurred. The Company does not set up a library stock.

Fixed asset items, the rights to which are subject to the state registration in accordance with applicable Russian laws, and with respect to which capital investments are finalized, construction, technical and respective primary accounting documents of acceptance and takeover are executed, but the title to which is not registered in the manner prescribed by the laws, are transferred to the group of fixed assets.

The commissioned fixed assets are written off to expenses by way of straight-line depreciation during their remaining useful life.

Fixed assets are depreciated using the straight-line method based on their useful life. The useful life is set according to the adopted deadlines approved by JSC FGC UES' Order No. 703r "On Approval of the Procedure for Classifying Property as Fixed Assets" dated October 19, 2012.

In the absence of individual fixed assets in Order 703r, useful life for accounting purposes is determined based on expert judgments of the Company's technical specialists in accordance with the specifications as follows:

- based on the expected useful life of such item in accordance with the expected productivity and capacity;
- based on anticipated wear and tear, which depends on the operational mode, natural conditions (environment), impact of corrosive substances, and maintenance/repairs systems used;
- regulatory and other restrictions on the use of such item.

When previously used fixed assets are purchased, their useful life is determined as follows:

- based on the useful life determined in accordance with the above-mentioned procedure reduced by the number of months during which such item was operated by its previous owner;
- if useful life cannot be determined using the above-mentioned method, the committee, at its sole discretion, determines the useful life of the above-mentioned fixed asset with due consideration of safety requirements and other factors.

No depreciation shall accrue for the following items:

- land plots;
- residential real estate purchased prior to January 1, 2006 (depreciation shall accrue for such items purchased after January 1, 2006 in accordance with the general procedure);
- fully depreciated assets which were not written off the Balance Sheet.

The value of fixed assets at which they are recorded on the books is not subject to change, save for completion, retrofitting, rehabilitation, upgrade, re-equipment, partial liquidation and on any other similar grounds, as well as in case of revaluation.

Completion and retrofitting works include works caused by changes in the technological or service purpose of equipment, building, structure or any other fixed asset due to enhanced loads and/or other new characteristics.

Rehabilitation includes rearrangement of existing fixed assets associated with the improvement of production and the associated technical and economic indicators, which is performed under fixed assets rehabilitation project for the purpose of increasing production capacity, improving quality and changing product mix.

Technical re-equipment includes a package plan designed for improvement in the technical and economic indicators of fixed assets or their individual parts based on adoption of up-to-date machinery and advance technology, mechanization and automation of production, upgrading and replacement of obsolete and worn-out equipment with any new and more productive equipment.

In the event of improvement (enhancement) of the initially adopted standard indicators of fixed asset functioning as a result of completion, retrofitting, rehabilitation or upgrade, the useful life of such asset may be revised.

Depreciation after useful life clarification is calculated as the ratio of residual asset value to the new remaining useful life. Income and losses from fixed asset retirement are reflected in the Profit and Loss Statement as miscellaneous income and expenses.

The Company revalues its fixed assets on an annual basis. Such revaluation is performed in accordance with the directive documents for groups of homogeneous fixed assets based on their current (replacement) value. Currently, the following groups of fixed assets are revalued: buildings (save for temporary ones), dwellings, transfer devices (save for temporary ones), structures (save for temporary ones), machinery and equipment (high-voltage equipment).

Expenses in connection with routine maintenance and major repairs of fixed assets are recognized as costs associated with ordinary activities in the reporting period in which they are incurred.

Expenses associated with major repairs of the Company's specialized residential real estate are

included in the rental fee for this residential premise and paid by the user under residential premise lease agreement.

With regard to costs associated with non-leased-out premises which stand idle, expenses in connection with major repairs of residential premises classified as residential real estate are duly incurred by the Financial Responsibility Center (Backbone Electric Grids / Backbone Electric Grid Enterprises, Executive Arm) on whose Balance Sheet the above-mentioned residential premise is held and are treated for by the latter as SPF expenses of the period in which they were incurred. Rehabilitation and upgrade costs are treated as increasing the value of the Company's residential real estate.

Since the amendments to Federal Law No. 164-FZ "On Financial Lease" (dd. October 29, 1998) entered into force on November 17, 2014, the Company has applied the leased property accounting approach and recorded it on the leaseholder's Balance Sheet if leased property met the criteria specified in RAS 6/01. The leased property recorded on the leaseholder's Balance Sheet is depreciated using the straight-line method and accounted for separately.

Regular large expenses (more than RUB 100 thousand) that occur at certain long time intervals (more than 12 months) throughout the useful life of a fixed asset (reflected in the accounting records under the financial leasing agreement) and are associated with repair of such fixed asset and other similar measures (for example, maintenance check), the failure to perform which will result in the impossibility of operating such asset in accordance with the applicable legal requirement, are stated in the Balance Sheet in section I "Non-Current Assets" as an indicator that details the data stated in the "Fixed Assets" lines.

Leased fixed assets are recorded on the Balance Sheet at such value as specified in lease contracts.

Fixed assets are shown in the accounting statements at their initial (replacement) value less the amounts of depreciation accrued throughout their service life.

2.5 Intangible assets

Intangible assets are depreciated using the straight-line method based on the specified useful life of intangible assets.

Intangible assets are shown in the accounting statements at their initial value less the amounts of depreciation accrued throughout their service life on a separate account.

In the accounting (financial) statements, the amount of capital investment in progress is disclosable in section I "Non-Current Assets" of the Balance Sheet in line 1172 "Investments in Non-Current Assets."

2.6 Research and Development (R&D)

Research, development and engineering expenses are written off using the straight-line method in equal installments over the existing write-off period. Write-off period for research, development and engineering expenses is determined by the Company at its sole discretion based on the expected useful life of research, development and engineering work products during which the Company may benefit economically, yet not more than 5 years. R&D with positive results and write-off period of more than one

year are recorded on the Balance Sheet as “Other Non-Current Assets.” If R&D expenses have not yielded any positive results, such expenses are recognized as other expense of the reporting period.

2.7 Inventories

Inventories are recognized at their actual acquisition (manufacture) value.

Goods purchased for sale are shown at their actual acquisition value.

Any inventories received by the Company under gift agreement or free of charge are recorded on the books at their current market value as of the date of entry in the records and the expenses associated with making them suitable for use.

Any inventories which remain after the liquidation, dismantling and disassembly of fixed assets and construction-in-progress or are retrieved in the course of routine maintenance, repair, rehabilitation and upgrade of fixed assets and other assets or detected as surpluses in the course of stock-taking are recorded on the books at their current market value as of the date of entry in the records and the expenses associated with making them suitable for use.

Current market value means possible proceeds from sale of the above-mentioned assets.

Upon the release of inventories and goods to production or other retirement, their valuation is performed within a business unit having a separate Balance Sheet at average production cost using the moving average inventory method.

Irrespective of their useful lives, any special clothing, special-purpose tools, special devices and special equipment are recognized as inventories at entry in the records.

The value of special clothing with useful life of 12 months or less is expensed fully upon its transfer (release) to the Company’s employees.

The cost of overalls, the useful life of which, according to the issue norms, exceeds 12 months, is depreciated based on the straight-line method from the month following the month of issue and subject to the useful life of said overalls established by industry sector standards or, in case there are no such standards available, according to the relevant internal regulatory documents of the Company.

2.8 Recognition of financial investments

Financial investments are recorded on the books at initial cost.

If the current market value of financial investments cannot be determined, such financial investments are to be recorded on the books and reported in the accounting statements at initial cost as of the reporting date. The Company performs an impairment test with respect to such financial investments on a quarterly basis as of the date of the statements. In case of stable decline in the value of the specified financial investments, the Company forms a provision for depreciation on the amount of difference between their book value and assessed or estimated value. The provision for depreciation of financial investments is reflected in the Profit and Loss Statement as miscellaneous expenses. The cost of financial investments, the market value of which cannot be determined, and with respect to which the Company established a provision for impairment, is accounted at the book value net of the amount of said provision.

Any financial investments whose current market value can be determined in accordance with the

prescribed procedure are reported in the accounting statements as of the reporting year end at their current market value by adjusting their valuation as of the previous reporting date. The Company makes this adjustment annually as of the last reporting date. The data of the Moscow Interbank Currency Exchange (MICEX) is used for determining the market value of financial investments as of the above-mentioned reporting date.

With respect to debt securities whose current market value cannot be determined, the Company allocates the variance between the initial cost and nominal cost on a straight-line basis within the period of their circulation with due account of the proceeds payable subject to the conditions of their issue to the financial results (as other income and expenses).

For the purpose of calculating other income in the form of discount on notes, the term of the note is determined based on the anticipated note circulation period (the period from the date of acquisition to the last day (date) when a note is to be presented for payment in accordance with the laws on notes), which is determined as follows:

- with respect to notes payable on demand, 365/366 days of the day on which a note is drawn;
- with respect to notes payable on demand but not earlier than a given date, 365/366 days plus the period from the day on which a note is drawn to the minimum date of note presentation for payment;
- with respect to notes with “on the fixed day”, “at a certain time from drawing up”, “at a certain time upon presentation” date of maturity, the period from the day of drawing up a note till the first day when the note should be paid (if the specified day falls on a non-working day, on the next working day).

Transactions relating to deposits are reported in the accounting statements as follows:

- investments in deposits with a fixed payback period of 92 days and more are reflected as part of financial investments;
- investments in deposits opened as callable on demand (call deposit) and investments in deposits with a fixed payback period of less than 92 days are cash equivalents recorded as cash and cash equivalents.

A deposit is classified as financial investment or cash equivalent at its placement and may not be reclassified throughout its term.

In the event of disposal of assets recognized as financial investments for accounting purposes, whose current market value is determined, the value of such assets is determined by the Company based on the most recent valuation. In the event of retirement of assets recognized for accounting purposes as financial investments, for which the current market value cannot be determined, their value is determined based on the initial cost of financial assets that were acquired first (FIFO method).

2.9 Deferred Expenses

Expenses incurred by the Company within the reporting period, but which are relevant to subsequent reporting periods, are subject to writing off on a straight-line basis within the period they are

due. Write-off period is determined based on the period during which economic benefits (income) are expected.

Deferred expenses to be written off within less than 12 months are recorded on the Balance Sheet in line 1260 “Other Current Assets”; more than 12 months, in line 1174 “Other Non-current Assets”; payments under insurance contracts on account of future insurance periods are shown on the Balance Sheet in lines 1239 or 1234 “Other Accounts Receivable”.

2.10 Accounts Receivable

Receivables from buyers and customers are determined based on the prices specified in the agreements between the Company and buyers (customers) and adjusted for all discounts (markups) offered by the Company and VAT.

To provide for a true and fair view of accounts receivable in the reporting of the Company, the Company establishes a provision for doubtful debts.

The provision for doubtful debts is created in accordance with the Company’s executive document that regulates the procedure for managing the accounts receivable and payable.

Expenses related to establishment of the provision are recognized as Miscellaneous Expenses, the recovery of a previously accrued provision is reflected in Miscellaneous Income.

The Company’s Profit and Loss Statement shows without detail the expenses and the associated income from the accrual and restoration of the provision for doubtful debts by counterparty and contract.

2.11 Authorized, Additional and Reserve Capital

The Company’s authorized capital is recognized as the par value of ordinary shares. The Company places ordinary registered uncertificated shares with a par value of fifty (50) kopecks each in the amount of 1,274,665,323,063 (One trillion two hundred and seventy-four billion six hundred and sixty-five million three hundred and twenty-three thousand sixty-three) shares for a total of RUB 637,332,662 (Six hundred and thirty-seven billion three hundred and thirty-two million six hundred and sixty-two) thousand.

In accordance with the laws, the Company has established a reserve fund of Five (5) percent of the Company’s authorized capital. The amount of mandatory annual deductions to the Company’s reserve fund is at least Five (5) percent of the Company’s net profit until the Reserve Fund reaches the prescribed amount.

2.12 Credits and Loans Received

The Company performs transfer of long-term debt into short-term debt pertaining to the credits and loans received. The Company converts its long-term debts for received loans and credits into short-term debts when, subject to the terms and conditions of the loan and/or credit contract, there are 365 days remaining until the principal repayment date.

With regard to its outstanding bonds, the Company recognizes the par value of its issued and sold bonds as accounts payable. When charging bond yield in the form of interest, the Company indicates payables with regard to interest on the bonds sold subject to payment at the end of the reporting period.

Expenditures incidental to received credits and loans, bond securities issued and placed are included by the Company in Miscellaneous Expenditures in the reporting periods in which these charges occur.

Interest on received loans and credits is allocated between the value of an investment asset and current expenses in accordance with the procedure specified in the Company's internal regulatory documents. In order to ensure fair and true reflection of the Company's asset value, the interest on promissory notes and bonds is also allocated to the cost of the investment asset.

2.13 Income and Expense

Revenue from the sale of goods, products, works, services is recognized once such goods, products are sold, works are performed, services are rendered.

Income is reported in the Company's accounting statements net of value added tax, customs duties and the discounts offered to buyers.

Income from property lease is recorded by the Company as income from ordinary activities.

Income from renting out residential premises is recognized separately from other activities of the Company.

Income associated with granting (for a fee) rights, which result from patents for invention, industrial models and other types of intellectual property, is recognized as other income.

The Company recognizes the following items as other income:

- proceeds from sales of fixed assets, promissory notes and other assets;
- interest received for use of the Company's cash assets, interest for use by the bank of funds on the Company's accounts with this bank, as well as interest on any purchased interest-bearing or discounted third-party promissory notes. The Company recognizes this income in its Profit and Loss Statement in line 2320 "Interest Receivable";
- amounts of provisions restored;
- any other proceeds (income).

The Company's expenses are divided into ordinary expenses and miscellaneous expenses.

Ordinary expenses are recognized in the same reporting period in which they were incurred, regardless of the actual payment.

Property lease expenses are recognized as ordinary expenses.

Expenses in connection with renting out residential premises are recognized separately from other activities of the Company.

The Company's administrative expenses are distributed by type of activity in accordance with the Company's organizational and directive documents (Guidelines for Planning, Accounting for and Distribution of Expenses by Type of Activity).

All expenses of the Company's branches are included in the cost of goods, products, works, services sold and recognized as production expenses (line 2120 "Cost of goods, products, works, services sold" of the Profit and Loss Statement).

The Company recognizes the following expenses as miscellaneous expenses:

- expenses associated with the disposal and other write-offs of fixed assets, promissory notes and other assets;
- provision for doubtful debts;
- losses of previous years recognized in the reporting year;
- other expenses.

The Company's Profit and Loss Statement shows without detail the expenses and associated income from the recognition of income and expenses of prior years in connection with the issue of correcting invoices by counterparty and contract.

2.14 Estimated liabilities

The Company recognizes an estimated liability provided that all of the recognition terms and conditions set forth in RAS 8/2010 "Estimated Liabilities, Contingent Liabilities and Contingent Assets" are fulfilled.

The Company recognizes an estimated liability for payment of the annual (basic and additional) unused vacations of its employees. The value of the estimated liability in relation to future payments to employees for earned but unused vacations as at the reporting year end is determined based on the number of days of such unused vacations of each employee as of the reporting date. Upon recognition of an estimated liability in relation to leave pay, calculation also includes the Company's liabilities in relation to insurance premiums, which will lead to a decrease in the Company's economic benefits in the event of vacation granting to an employee or payment of compensation for unused vacation. If actual leave pay expenses in a reporting period exceed the amount of established leave pay provision as at the beginning of such period, then the excess amount is included in operating costs.

Estimated liability for annual (basic and additional) leave pay is calculated and recorded in accordance with the Guidelines approved by the Company.

The Company establishes an estimated liability for employee remuneration (month-end, quarter-end, year-end bonuses, non-recurring remuneration for the accomplishment of very important tasks) which is provided for in the Company's regulations for the compensation of employees, is accrued and payable in the period following the reporting period.

The estimated liability for remuneration is calculated by taking inventory of the above-mentioned estimated liability as of December 31st of each reporting year with due account for the Company's liabilities for insurance premiums.

Considering that the Russian Accounting Standards (RAS) do not contain the procedure for calculating estimated liabilities under non-state pension provision (NSPP) and the Company does not apply IAS19 for RAS purposes, the Company assesses the estimated liabilities under NBPP as follows:

the liability to pay non-state pension arises from the date an employee (who has at least 10 years of work experience at the electrical energy complex companies) reaches the pension age. The right to non-state pension lapses upon the expiration of six months from the date which entitles to pension. The amount of estimated liability is determined individually for each employee based on his/her basic salary and length of service.

The estimated liability under NSPP is calculated by taking inventory of said estimated liability as of December 31st of each reporting year.

2.15 Correction of Errors

Circumstances that have a significant impact on the reliability of accounting (financial) statements shall be deemed material.

The materiality level is a limit of error in the statements, starting from which a qualified user is highly likely to stop being able to make correct conclusions and take reasonable economic decisions based on such statements.

The Company establishes the following signs which influence the reliability of statements and are deemed material:

- Circumstances shall be deemed material if they lead to distortion (by at least 10%) of the balance sheet item, the share of which in the balance-sheet total is at least 5%, or cause the distortion of items in the profit and loss statement, the cumulative effect of which can result in the change of the net profit (loss) figures for the reporting period by at least 10%.

2.16 Cash Equivalents and Reflection of Cash Flows in the Statement of Cash Flows

Cash equivalents include highly liquid investments that may be readily converted into a known amount of cash and which are subject to an insignificant risk of change in value.

Transactions related to investments in deposits opened as callable on demand (call deposit) and investments in deposits with a fixed payback period of less than 92 days are cash equivalents recorded as cash and cash equivalents.

The value of cash flows in foreign currencies for reflection in the Statement of Cash Flows was translated into rubles at the official exchange rate of such foreign currency against the ruble as established by the Central Bank of Russia as of the date of payment or receipt thereof. The difference resulting from the conversion of cash flows, cash balances and cash equivalents denominated in a foreign currency at the exchange rates as of the dates of transactions in such foreign currency and as of the reporting dates is included in line "Scope of Effects of Changes in the Exchange Rates of Foreign Currencies Against the Ruble" of the report.

If the Company has any such transactions, the Statement of Cash Flows shows the following items (without detail):

- payments and proceeds from transactions relating to a purchase for resale and sale of the above-mentioned financial investments;

- amounts of VAT included in the sums received from buyers and customers, payments to suppliers and contractors, payments to the budget system and VAT refunds therefrom;
- cash received from buyers which are to be forwarded to the principal (if the Company acts as commissionaire).

2.17 Changes in the Company's Accounting Policies

In 2017, any changes in the Company's accounting policy served primarily to adjust rather than amend any line items of the financial statements.

2.18 Data from Prior Reporting Periods

The 2017 Financial Statements are prepared subject to the forms recommended by Decree of the Russian Ministry of Finance No. 66n.

The value recorded in line 1373 "Retained earnings" for the year 2016 is fully included into line 1372 in the forms of annual accounting statements in connection with the balance sheet reformation.

III. DISCLOSURE OF MATERIAL INDICATORS

3.1 Capital and Reserves

As of December 31, 2017, the Company's authorized capital is RUB 637,332,662 (Six hundred thirty-seven billion three hundred thirty-two million six hundred and sixty-two thousand rubles) and consists of 1,274,665,323,063 (One trillion two hundred seventy-four billion six hundred sixty-five million three hundred twenty-three thousand and sixty-three) ordinary registered uncertificated shares with a par value of RUB 0.50 each. As of December 31, 2015; December 31, 2016, and December 31, 2017, the Company's authorized capital was duly registered and fully paid.

According to the shareholder register, 80.13% of the Company's shares are owned by PJSC Russian Grids as of December 31, 2017. 19.28% of outstanding shares in the Company are owned by minority shareholders; 0.59% of outstanding shares in the Company are owned by the Federal Agency for State Property Management (Rosimushchestvo).

The additional capital (without revaluation) is made up as follows:

RUB, in thousands

Indicator	As of December 31, 2017	As of December 31, 2016	As of December 31, 2015
Amount of additional capitals of companies merged in the course of reorganization	21,316,409	21,316,409	21,316,409
Share premium	10,501,227	10,501,227	10,501,227
Amount of VAT on the fixed assets contributed to the authorized capital	49,527	49,527	49,527
Total	31,867,163	31,867,163	31,867,163

Revaluation of fixed assets was performed based on the independent appraiser's report.

The Company's performance in 2017 resulted in a profit of RUB 42,384,552 thousand. The Company's performance in 2016 resulted in a profit of RUB 106,070,911 thousand.

3.2 Intangible assets

RUB, in thousands

Intangible asset	December 31, 2017		December 31, 2016		December 31, 2015	
	account 04	account 05	account 04	account 05	account 04	account 05
Asset Management System Database of JSC FGC UES (AMS DB)	895,592	895,592	895,592	895,592	895,592	895,592
Corporate system for control of space and distribution resources (CSCSDR)	874,514	845,364	874,514	670,461	874,514	495,558
Asset Management System of JSC FGC UES (AMS)	631,990	631,990	631,990	631,990	631,990	631,990
Data and software complex Corporate Space-Distributed Resource Control System Database	603,275	603,275	603,275	603,275	603,275	603,275
Automated accounting and reporting system for FGC UES	598,698	598,698	598,698	598,698	598,698	598,698
SPO AIIS KUE ENES	428,670	428,670	428,670	428,670	428,670	428,670
Automated System of Integrated Management of Investing Activities of JSC FGC UES (ASIMIA)	373,324	186,662	373,324	111,997	373,324	37,332

Automated property control system for FGC UES, its branches, subsidiaries and affiliates (APCS "Property+")	340,179	340,179	340,179	340,179	343,744	334,453
SS AIMS EM UNEG Specialized Software of Automated Information and Measurement System for Electricity Metering	312,996	182,581	312,996	119,982	312,996	57,383
Corporate system for control of space and distribution resources (CSCSDR+)	311,012	311,012	311,012	311,012	311,012	311,012
Database of 220kV transmission lines and transmission facilities for FGC UES (DB KSUPR)	295,793	295,793	295,793	295,793	295,793	295,793
Functional automation of the "Unified automated accounting system of PJSC FGC UES"	286,677	90,781	286,677	330,446	0	0
Data and software complex Corporate Space-Distributed Resource Control System Program complex	251,222	251,222	251,222	251,222	251,222	251,222
Inventions, industrial samples, useful models (account 0401)*	352,472	147,143	329,794	117,466	316,270	88,465
Trademarks (account 0402)*	89	6	246	246	246	246
Software and database (account 0403)*	4,045,966	2,880,160	3,725,409	2,107,402	3,419,217	2,140,253
Know how (account 0406)*	1,972,801	1,230,733	1,725,903	865,603	1,523,206	541,101
Other intangible assets (account 0498)*	251,029	233,161	251,029	229,382	251,029	225,604
Total	12,826,299	10,153,022	12,236,323	8,909,416	11,430,798	7,936,647
Total for line 1110	2,673,277	3,326,907	3,326,907	3,494,151		

(*) Intangible assets worth less than 10% of balance sheet line 1110.

During the reporting year, there were no changes in the useful lives and intangible assets' depreciation method as compared with the previous reporting year.

The intangible assets' impairment test was not carried out due to the lack of impairment indicators.

As of the reporting date, intangible assets include fully depreciated items. Information about such items is shown in Section 1.3 of the Notes to the Balance Sheet and the Profit and Loss Statement. The above-mentioned items have not been written off since the Company continues to use them in its activity.

3.3 Fixed assets

As of December 31, 2017, the Company revalued the following groups of fixed assets at the replacement cost determined by the independent appraiser: buildings, structures, transmission lines, as well as high-voltage substation equipment.

The amount of revaluation of the above items in 2017 was RUB 29,710,398 thousand (as against RUB 11,044,438 thousand in 2016, RUB 14,127,035 thousand in 2015), including:

- the amount of revaluation surplus recognized as additional capital is RUB 27,816,547 thousand (against RUB 12,520,106 thousand in 2016 and RUB 13,866,221 thousand in 2015)
- the amount of revaluation surplus with regard to earlier markdown, recognized as other income, is RUB 1,952,069 thousand (against RUB 901,183 thousand in 2016 and RUB 1,697,565 thousand in 2015)
- the amount of revaluation surplus recognized as other expense is RUB 58,218 thousand (against RUB 2,376,851 thousand in 2016 and RUB 1,436,751 thousand in 2015).

Fixed assets are shown on the Balance Sheet at residual value.

Income and losses from fixed asset retirement are reflected in the Profit and Loss Statement as miscellaneous income and expenses.

3.4 Miscellaneous Non-Current Assets

Investments in non-current assets, line 1172

RUB, in thousands

Type of investment in non-current assets	December 31, 2017	December 31, 2016	December 31, 2015
Design and engineering works, acquisition and construction of fixed assets	225,036,907	185,749,534	204,237,253
Acquisition and construction of intangible assets	766,055	605,023	940,935
Expenses on R&D in progress	4,826,387	4,718,625	4,560,605
Total investments in non-current assets	230,629,349	191,073,182	209,738,793

The details of research and development projects in progress and pending transactions relating to the acquisition of intangible assets are shown in section 1.5 of the Notes to the Balance Sheet and the Profit and Loss Statement.

Expenses associated with design and engineering works, acquisition and construction of fixed assets are assigned to the following main business units of the Company:

RUB, in thousands

Business Unit	December 31, 2017	December 31, 2016	December 31, 2015
Executive Arm	398,441	81,157	145,945
MES of Center	47,259,118	48,676,208	50,874,530
MES of North-West	66,233,712	45,551,462	37,633,919
MES of Volga	5,150,795	3,658,441	17,533,086
MES of South	17,840,604	13,766,777	18,963,743
MES of the Urals	9,391,517	10,519,503	13,503,231
MES of Siberia	23,489,572	22,068,294	22,197,298
MES of Western Siberia	23,295,708	17,096,333	19,505,462
MES of East	31,977,440	24,331,359	23,880,039
Total for all business units	225,036,907	185,749,534	204,237,253

3.5 Taxes

As of December 31, 2017 and December 31, 2016, there was no long-term portion of the value added tax amount. As of December 31, 2015, it was RUB 6 885 thousand and constituted VAT on construction, assembly, design and survey works until 2005, which will be refunded from the budget upon commissioning of assets-under-construction.

According to data from tax accounting which conforms to the requirements set forth in Chapter 25 “Corporate Profit Tax” of the Tax Code of the Russian Federation, the taxable profit for 2017 is RUB 64,400,205 thousand versus RUB 62,844,198 thousand in 2016.

For accounting purposes, income before tax is linked to the current profit tax as follows:

RUB, in thousands

Indicator	2017	2016
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Profit (loss) before tax	60,593,296	124,320,047
Conditional profit tax expense (income) at 20%	12,118,659	24,864,009
Standing tax liability (asset)	6,109,770	(6,672,675)
Deferred tax asset	(69,824)	228,553
Deferred tax liability	(5,278,564)	(5,851,047)
Current profit tax	(12,880,041)	(12,568,840)

In the reporting year, the sum of fixed differences which affected the adjustment of conditional profit tax expense for the purposes of calculating profit tax assessed based on tax accounting data (current profit tax) was RUB 30,548,850 thousand (against RUB 33,363,375 thousand in 2016). The above-mentioned fixed differences are related to the differences in recognition of the following income and expenses items in the records and tax accounting:

RUB, in thousands

Income/Expenses	2017		2016	
	Amount of income/expenses	Fixed tax asset/liability	Amount of income/expenses	Fixed tax asset/liability
Income in the form of restored provisions for doubtful debts	5,228,470	1,045,694	20,902,403	4,180,481
Income from revaluation of shares	2,118,166	423,633	54,187,360	10,837,471
Income from the restoration of fixed assets allowances	1,952,069	390,414	901,183	180,237
Income from interests in Russian entities	1,912,559	382,512	260,824	52,165
Restoration of additional taxes assessed earlier	28,438	5,688	923,203	184,641
Other income	(111,869)	(22,374)	(159,859)	(31,972)
Total income	11,127,833	2,225,567	77,015,114	15,403,023
Fixed asset depreciation	16,693,617	3,338,723	17,180,319	3,436,064
Allocation to provision for doubtful debts	11,050,114	2,210,023	21,105,382	4,221,076
Negative difference resulting from revaluation of securities	7,496,003	1,499,201	-	-
Miscellaneous expenses (less than 10% individually)	5,312,708	1,062,542	5,366,038	1,073,208
Total expenses	41,676,683	8,335,337	43,651,739	8,730,348

Other fixed tax liabilities include fixed tax liabilities relating to charity, pecuniary aid, social welfare, corporate events expenses, estimated liability, etc.

The difference between the periods of recognition of income and expense for accounting purposes, on the one hand, and for profit tax accounting purposes, on the other hand, causes the emergence of time differences. Most of the time differences are related to different procedures for fixed asset depreciation for tax and business accounting purposes.

RUB, in thousands

Type of deferred tax asset	2017	2016
Estimated bonus liability	25,581	19,420
Fixed assets	(52,280)	207,550
Estimated vacation liability	8,772	16,412
Property insurance	(26,558)	26,566
Estimated liability related to non-state pension fund	(13,615)	(31,888)
Loss from the sale of fixed assets	(4,358)	(3,650)

Subsidies	(4,949)	(8,221)
Other	(2,417)	2,364
Total	(69,824)	228,553

RUB, in thousands

Type of deferred tax liability	2017	2016
Fixed assets	4,049,488	5,254,913
Interest on financial loans	1,129,337	529,173
R&D	59,337	51,635
Lease interest	18,572	17,215
Materials	21,822	-
Other deferred tax liabilities	8	(1,889)
Total	5,278,564	5,851,047

Assets and liabilities for deferred profit tax as of the end of the reporting period are determined at the rate of 20%.

The consolidated (rolled up) amount of deferred tax assets and deferred tax liabilities is recorded in line 1420 “Deferred tax liabilities” of the Balance Sheet.

RUB, in thousands

Indicator	2017	2016	2015
Deferred tax asset	1,450,382	1,520,206	1,291,653
Deferred tax liability	(56,457,020)	(51,178,456)	(45,327,409)
Total for line 1420 “Deferred tax liabilities”	(55,006,638)	(49,658,250)	(44,035,756)

In 2017, the assessment of other taxes and dues is recorded as ordinary expenses in the amount of RUB 10,723,882 thousand (against RUB 9,007,913 thousand in 2016). The expenses related to ordinary operations include the following types of taxes and levies:

- property tax – RUB 10,628,610 thousand (as against RUB 8,909,662 thousand in 2016);
- transport tax – RUB 31,551 thousand (as against RUB 32,067 thousand in 2016);
- miscellaneous taxes and levies – RUB 63,721 thousand (as against RUB 66,184 thousand in 2016).

3.6 Research and Development (R&D)

In 2017, RUB 80,605 thousand of expenditures incidental to R&D activities used in the current activities were written off as part of expenditures related to ordinary operations (as against RUB 80,604 thousand in 2016), which is reflected in Line item 5140 of the Notes to the Accounting Balance Sheet and Profit and Loss Statement. As of December 31, 2017, the balance on completed R&D was reflected in Line item 1120 “Results of R&D” of the Accounting Balance Sheet and amounted to RUB 82,442 thousand (as against RUB 163,047 thousand as of December 31, 2016, and RUB 243,651 thousand as of December 31, 2015).

3.7 Long-Term Financial Investments

Long-term financial investments (Balance Sheet line 1150) comprise the following assets of the Company:

RUB, in thousands

Asset	December 31, 2017	December 31, 2016	December 31, 2015
Equity financial investments , including	84,064,907	70,824,222	31,040,352
Contributions to subsidiary companies	17,526,280	14,743,865	14,729,615
Contributions to dependent companies	-	144,963	145,063
Contributions to other entities	66,538,627	55,935,394	16,165,674
Other long-term equity financial investments	-	-	-
Debt financial investments , including	1,000,000	1,000,000	1,298,803
Loans extended	-	1,000,000	1,298,803
Total financial investments	84,064,907	71,824,222	32,339,155

3.7.1 Contributions to Subsidiaries, Dependent Companies and Other Entities

Line 1150 “Financial investments” of non-current assets on the Balance Sheet includes the following contributions to subsidiaries, dependent companies and other entities:

Name of Subsidiaries, Dependent Companies and Other Entities	December 31, 2017		December 31, 2016		December 31, 2015		Type of activity
	Book value, RUB, in thousands (provision adjusted)	Stake in the Authorized Capital, %	Book value, RUB, in thousands (provision adjusted)	Stake in the Authorized Capital, %	Book value, RUB, in thousands (provision adjusted)	Stake in the Authorized Capital, %	
Subsidiaries:	17,526,280		14,743,865		14,729,615		
JSC “Mobile Gas Turbine electric stations”	7,767,203	100.000	8,594,113	100.000	8,845,519	100.000	Electric power generation
JSC R&D Center FGC UES	2,249,322	100.000	2,631,626	100.000	2,625,956	100.000	Research and Development
JSC “Tomsk Backbone Grids”	1,367,627	77.90	866,424	52.025	866,424	52.025	Power transmission services
JSC “Kuban Backbone Grids”	449,767	75.258	134,139	49.000	134,139	49.000	Power transmission services
JSC OES SakRusenergo	763,227	50.000	763,227	50.000	763,227	50.000	Power transmission services
JSC ElektroSetServis of the UNES	953,804	100.000	627,139	100.000	666,918	100.000	Maintenance and repair services for electric grid facilities
JSC Center of Engineering and Management of Construction	833,000	100.000	780,255	100.000	494,959	100.000	Acting as owner and developer in areas such as capital construction, rehabilitation and re-equipment of electric grid facilities
IT Energy Service LLC	378,540	79.999	287,356	79.999	274,068	79.999	IT services
JSC Energostroysnabkomplekt of UES	162,290	100.000	169,635	100.000	164,954	100.000	Electric power complex procurement
JSC “MUS of Electric Power Industry”	19,997	100.000	19,997	100.000	19,997	100.000	Communication services
JSC Chitatekhenenergo	4,092	100.000	4,093	100.000	4,093	100.000	Construction, design, repair and maintenance of energy industry projects
JSC Electric Power Industry Balance Forecasting Agency	-	100.000	-	100.000	3,500	100.000	IT services
JSC “NurEnergo”	-	77.000	-	77.000	-	77.000	Electric power

Name of Subsidiaries, Dependent Companies and Other Entities	December 31, 2017		December 31, 2016		December 31, 2015		Type of activity
	Book value, RUB, in thousands (provision adjusted)	Stake in the Authorized Capital, %	Book value, RUB, in thousands (provision adjusted)	Stake in the Authorized Capital, %	Book value, RUB, in thousands (provision adjusted)	Stake in the Authorized Capital, %	
Index of Energy – FGC UES, LLC	-	100.000		100.000	-	100.000	generation Sale of securities
OOO FGC - Asset Management	2,577,411	100.000	80	0.010	80	0.010	Sale of securities
Dependent companies:	-		10,824		10,924		
CJSC Severovostokenergo	-	49.000	9,800	49.000	9,800	49.000	Electric and heat power generation and sales
JSC ENIN	-	38.239	1,024	38.239	1,024	38.239	Research and Development
JSC Energotechkomplekt	-	-	-	-	100	48.999	Supply of materials and equipment
Other entities:	66,538,627		55,935,394		16,165,674		
*PJSC INTER RAO	65,049,904	18.569	55,823,236	14.075	16,053,405	14.075	Arrangement of cross-border electric power supplies
* PJSC Russian Grids	1,377,403	0.689	-	-	-	-	Holding company management services
JSC Analytical Credit Rating Agency	109,668	3.704	111,112	3.704	111,112	3.704	Rating activities
JSC Testing Panel of Ivanovo GRES	1,519	0.826	932	0.826	932	0.826	Installation, start-up services for electrical equipment
JSC Non-State Pension Fund of the Electric Power Industry	132	0.110	33	0.110	132	0.110	Non-state pension fund scheme
CJSC Energorynok	1	8.500	1	8.500	1	8.500	Publishing services
JSC Dalenergosetproekt	-	0.005	-	0.005	6	0.005	Power facilities design and survey works
JSC TaigaEnergostroy	-	0.00067	-	0.00067	-	0.00067	Power transmission and technological connection to distribution systems
PJSC Tsentrenergoholding	-	-	-	-	6	0.0013	Holding company management services
Total:	84,064,907		70,824,222		31,040,352		

Notes:

* As of December 31, 2017, the Company's Accounting Balance Sheet included financial investments in shares traded on the stock exchange during 2017 for the amount of RUB 66,427,307 thousand.

The above-listed shares in PJSC INTER RAO and PJSC Russian Grids are recorded on the Balance Sheet at their current market value. In 2017, the profit from changes in the current market value of preferred shares of PJSC Russian Grids was RUB 20,622 thousand, the loss from revaluation of ordinary shares of PJSC Russian Grids and PJSC INTER RAO was RUB 7,496,003 thousand.

The Company has analyzed the signs of sustainable decreasing of financial investment cost for which the current market value is not determined. The Company performs an impairment test with respect to such financial investments on a quarterly basis as of the date of the interim accounting statements. In 2017, the Company established a provision for impairment of its financial investments in the amount of RUB 3,017,955 thousand and reflected it as part of miscellaneous expenses (as against RUB 1,532,563

thousand in 2016 and RUB 2,041,681 thousand in 2015). In the Profit and Loss Statement, any transfers to the provision for impairment of equity investments and recovery of the provision for impairment of equity investments in 2017 are stated in a contracted form by counterparty.

As of December 31, 2017, December 31, 2016 and December 31, 2015, the provision for impairment of financial investments was:

RUB, in thousands			
Issuer	December 31, 2017	December 31, 2016	December 31, 2015
Subsidiaries:	10,191,413	9,282,584	9,296,834
JSC "Mobile Gas Turbine electric stations"	6,351,808	5,524,898	5,273,492
JSC "NurEnergO"	1,972,781	1,972,781	1,972,781
JSC R&D Center FGC UES	1,646,498	1,264,194	1,269,864
OOO FGC - Asset Management	162,864	-	-
JSC Energostroysnabkomplekt of UES	43,962	36,617	41,298
Index of Energy – FGC UES, LLC	10,000	10,000	10,000
JSC Electric Power Industry Balance Forecasting Agency	3,500	3,500	-
JSC ElektroSetServis of the UNES	-	326,665	286,886
JSC Center of Engineering and Management of Construction	-	52,745	338,041
IT Energy Service LLC	-	91,184	104,472
Other entities:	12,807	1,225	1,120
CJSC Severovostokenergo	9,800	-	-
JSC AKRA	1,444	-	-
JSC ENIN	1,024	-	-
JSC Testing Panel of Ivanovo GRES	521	1,108	1,108
JSC Dalenergosexproekt	18	18	12
JSC Non-State Pension Fund of the Electric Power Industry	-	99	-
Total provision for impairment of financial investments	10,204,220	9,283,809	9,297,954

The initial cost of long-term investments in equity financial investments in relation to which a provision is set up is RUB 25,237,107 thousand as of December 31, 2017, whereas as of December 31, 2016 it was RUB 22,374,897 thousand and RUB 22,371,265 thousand as of December 31, 2015.

There were no negative trends that could serve as a reason for devaluation of any other blocks of shares.

3.7.2 Loans Extended and Other Long-Term Financial Investments

As of December 31, 2017, the Company did not provide long-term loans.

On March 29, 2017, the loan extended to LLC BESK (a subsidiary of MMC "Norilsk Nickel") in the amount of RUB 1,000,000 thousand maturing on December 31, 2020 (RUB 1,000,000 thousand as of December 31, 2016, RUB 1,000,000 thousand as of December 31, 2015) was repaid.

3.8 Short-term Financial Investments

Short-term financial investments (Balance Sheet line 1240) comprise the following assets of the Company:

RUB, in thousands

Asset	December 31, 2017	December 31, 2016	December 31, 2015
Loans extended	2,042,470	2,058,598	8,766,927
Other short-term financial investments	8,720	8,720	30,126,562
Total short-term financial investments	2,051,190	2,067,318	38,893,489

3.8.1 Short-term notes

As of December 31, 2017, there are no short-term notes in short-term financial investments in the Company's Balance Sheet.

Based on the arbitration award of June 2, 2016 with regard to case No. A40-2397/15 on recovery from Energo-Finance LLC of a bill debt in the amount of RUB 12,369,521 thousand, the bill debt was reclassified as accounts receivable as of December 31, 2016.

As of December 31, 2015, the short-term notes recorded on the Company's Balance Sheet include the notes of Energo-Finance LLC maturing in December 2014; the notes of Energo-Finance LLC are stated less the provision of RUB 12,369,521 thousand.

3.8.2 Loans Extended and Other Short-Term Financial Investments

As of December 31, 2017, the loans extended include a loan to JSC "Kuban Backbone Grids" in the amount of RUB 442,296 thousand (RUB 642,296 thousand as of December 31, 2016, RUB 642,296 thousand as of December 31, 2015), a loan to JSC CEMC UES in the amount of RUB 1,025,095 thousand (RUB 709,022 thousand as of December 31, 2016, RUB 8,123,680 thousand as of December 31, 2015), a loan to JSC R&D Center FGC UES in the amount of RUB 148,344 thousand (RUB 298,803 thousand as of December 31, 2016), a loan to JSC Mobile GTES in the amount of RUB 194,687 thousand (RUB 200,000 thousand as of December 31, 2016), a loan to JSC ElektroSetServis of the UNES in the amount of RUB 225,000 thousand (RUB 208,477 thousand as of December 31, 2016), a loan to IT Energy Service LLC in the amount of RUB 7,048 thousand.

Based on the arbitration award of June 29, 2016 with regard to case No. A77-1351/2009 (money loan agreement No. 3876 dd. March 9, 2006 and No. 3624 dd. February 6, 2006), JSC "NurEnergo" was recognized as a bankrupt, the principal amount and the accrued interest as of December 31, 2016 were transferred to the Company's accounts receivable. As of December 31, 2015, the loan extended to JSC "NurEnergo" in the amount of RUB 501,300 thousand is recorded in the Company's balance sheet less the provision for impairment of RUB 501,300 thousand.

As of December 31, 2016, the loan to the Company's employee in the amount of RUB 951 thousand is repaid (RUB 951 thousand as of December 31, 2015).

As of December 31, 2017, an assignment of the right of claim to JSC "GlavSetServis UNEG" in the amount of RUB 8,720 thousand was accounted as part of other financial investments (RUB 8,720 thousand as of December 31, 2016, RUB 8,720 thousand as of December 31, 2015).

As of December 31, 2016, there is no contribution under the agreement for joint investing activities with FGC Leader LLC in other financial investments (RUB 1,523 thousand as of December 31, 2015).

As of December 31, 2016, there were no certificates of deposit in other financial investments. Recorded as other financial investments as of December 31, 2015, are RUB 2,000,000 thousand certificates of deposit with JSC Gazprombank maturing in March 2016, and RUB 1,000,000 thousand certificates of deposit with JSC Gazprombank maturing in April 2016; RUB 3,300,000 thousand certificates of deposit with JSC AB Rossiya maturing in April 2016 and RUB 3,000,000 thousand certificates of deposit with JSC AB Rossiya maturing in October 2016; RUB 5,700,000 thousand certificates of deposit with JSC Alfa-Bank maturing in April 2016 and RUB 2,000,000 thousand certificates of deposit with JSC Alfa-Bank maturing in October 2016; RUB 5,000,000 thousand certificates of deposit with VTB (PJSC) maturing in March 2016 and RUB 8,116,319 thousand certificates of deposit with VTB (PJSC) maturing in April 2016.

In 2017, evaluation of financial investments in case of their retirement was performed using the acquisition cost of each unit.

3.9 Accounts Receivable

Information in relation to the disclosure of receivables is provided in Section 5.1 “Existence and Movement of Receivables” in the table form of annexes to the Accounting Balance Sheet and the Profit and Loss Statement.

The receipts of accounts receivable in the columns “Resulting from transactions (amount of debt resulting from transaction, operation)”, “Interest, penalties and other charges payable”, “Cancelled” and “Write-off to the financial results” of Section 5.1 of table annexes are reflected in view of the accounts receivable received and discharged (written off) within the same reporting period.

Line 1173 “Advances against non-current assets” is broken down as follows:

Item	December 31, 2017		December 31, 2016		December 31, 2015	
	Debt	Provision	Debt	Provision	Debt	Provision
Line 1173	21,265,668		25,790,087		20,854,723	
Advance payments to construction organizations, including	27,845,850	6,580,182	34,842,818	9,052,731	26,272,966	5,418,243
UralElektroStroy LLC	4,554,595	-	3,638,792	-	-	-
JSC CEMC UES	2,287,475	-	1,510,030	-	-	-
Petrokom LLC	2,228,661	-	632,178	-	-	-
JSC ISK Soyuz-Seti	2,033,851	1,243,660	3,064,761	2,105,953	3,355,744	-
JSC TEK Mosenergo	1,285,625	-	4,336,127	-	-	-
RusEngineering LLC	216,632	216,632	2,917,398	2,841,900	3,985,616	1,877,418
Other (less than 10% of line 1173 individually)	15,239,011	5,119,890	18,743,532	4,104,878	18,931,606	3,540,825

The total amount of advances to subsidiaries and dependent companies include debts which amount to RUB 4,331,093 thousand as of December 31, 2017, RUB 2,732,051 thousand as of December 31,

2016, and RUB 1,770,622 thousand as of December 31, 2015. As of December 31, 2017, there was no provision; as of December 31, 2016, the provision was RUB 401,955 thousand, as of December 31, 2015, the provision was RUB 191,258 thousand. Information about related parties is disclosed in paragraph 3.16 of the Notes.

The itemization of line 1231 “Long-term accounts receivable” of the Balance Sheet is shown in the table below:

Item	December 31, 2017		December 31, 2016		December 31, 2015	
	Debt	Provision	Debt	Provision	Debt	Provision
Receivables from buyers and customers	76,671,024	277,623	10,485,059	-	8,654,597	-
Rosenergoatom Concern JSC	63,772,579	-	7,243,131	-	8,148,522	-
Other receivables	12,898,445	277,623	3,241,928	-	506,075	-
Advance payments made	-	-	-	-	-	-
Other receivables	1,593,561	104,097	893,270	50,767	899,909	50,767
Noninterest-bearing notes	513,671	-	523,227	-	532,783	-
Other receivables	1,079,890	104,097	842,503	50,767	367,126	50,767
Total long-term accounts receivable	78,264,585	381,720	11,378,329	50,767	9,554,506	50,767
Line 1231	77,882,865		11,327,562		9,503,739	

As of December 31, 2017, the long-term receivables include non-interest bearing notes in the amount of RUB 513,671, thousand with the maturity dates until 2026. Other receivables represent sums under contracts with due dates expected, in accordance with contractual terms, within more than 12 months after the reporting date. Information about related parties is disclosed in paragraph 3.17 of the Notes.

The itemization of line 1236 “Accounts receivable from buyers and customers” of the Balance Sheet is shown in the table below.

Debtor	December 31, 2017		December 31, 2016		December 31, 2015	
	Debt	Provision	Debt	Provision	Debt	Provision
Rosenergoatom Concern JSC	6,436,851	-	47,545,122	-	905,595	-
PJSC MOESK	4,606,483	-	3,309,588	587,674	1,041,270	587,674
PJSC Lenenergo	691,675	-	4,438,178	197,765	6,157,744	153,805
PJSC “MRSK of Siberia”	951,949	-	5,280,894	193,084	5,702,372	193,084
PJSC “MRSK of South”	1,913,877	-	6,365,801	109,572	4,713,868	109,572
Other (less than 10% of line 1236 individually)	27,587,571	-	32,426,893	8,302,293	32,158,762	9,882,076
Total receivables from buyers and customers	42,188,406	5,800,158	99,366,476	9,390,388	50,679,611	10,926,211

Debtor	December 31, 2017	December 31, 2016	December 31, 2015
Line 1236	36,388,248	89,976,088	39,753,400

As of December 31, 2017, subsidiaries and dependent companies accounted for RUB 827,252 thousand of the total debt (the amount of receivables was RUB 1,736,853 thousand; the provision for the above-mentioned receivables was RUB 909,601 thousand). As of December 31, 2016, subsidiaries and dependent companies accounted for RUB 2,058,467 thousand of the total debt (the amount of receivables was RUB 3,007,462 thousand; the provision for the above-mentioned receivables was RUB 948,995 thousand). As of December 31, 2015, subsidiaries and dependent companies accounted for RUB 1,274,226 thousand of the total debt (the amount of receivables was RUB 2,231,837 thousand; the provision for the above-mentioned receivables was RUB 957,611 thousand). Information about related parties is disclosed in paragraph 3.17 of the Notes.

The itemization of line 1238 “Accounts receivable with respect to advances made” of the Balance Sheet is shown in the table below.

Advance payments made	December 31, 2017		December 31, 2016		December 31, 2015	
	Debt	Provision	Debt	Provision	Debt	Provision
Advance payments to service providers	1,074,482	841,551	2,314,440	1,977,453	2,614,257	1,979,258
FSUE “Svyazstroy”	-	-	1,118,066	1,118,066	1,118,066	1,118,066
PJSC “MRSK of North Caucasus”	800,000	800,000	800,000	800,000	800,000	800,000
MJET GmbH	54,353	-	54,353	-	66,673	-
Streletskaya Sloboda LLC	-	-	2,186	-	158,471	-
Other (less than 10% of line 1238 individually)	220,129	41,551	339,835	59,387	471,047	61,192
Other advances	38,950	1,327	180,656	1,709	131,898	847
Line 1238	270,554		515,934		766,050	

Out of the total amount of advances made to subsidiaries and affiliates, there are no overdue payments as of December 31, 2017, as against RUB 31,342 thousand as of December 31, 2016, and RUB 56,318 thousand as of December 31, 2015; as of December 31, 2017, December 31, 2016 and December 31, 2015, no provision was established for the above amounts. Information about related parties is disclosed in paragraph 3.17 of the Notes.

The itemization of line 1239 “Other debtors” of the Balance Sheet is shown in the table below.

Type of receivables	RUB, in thousands		
	December 31, 2017	December 31, 2016	December 31, 2015
Taxes and dues overpaid to non-budgetary funds	254,861	356,474	276,339
Noninterest-bearing notes	83,740	20,035,519	6,998,111
VAT on advances	1,837,164	1,175,019	866,503
Other	11,661,643	11,814,681	11,327,073

Type of receivables	December 31, 2017	December 31, 2016	December 31, 2015
Total other accounts receivable	13,837,408	33,381,693	19,468,026

The short-term portion of deferred insurance expenses is recorded in balance sheet line 1239 “Other debtors” in the amount of RUB 594,521 thousand as of December 31, 2017, and retrospectively in the amount of RUB 405,065 thousand as of December 31, 2016; RUB 385,799 thousand as of December 31, 2015.

Other short-term receivables include non-interest bearing notes in the amount of RUB 83,740 thousand as of December 31, 2017 (against RUB 20,035,519 thousand as of December 31, 2016, and RUB 6,998,111 thousand as of December 31, 2015). In 2017, LLC Index of Energy – FGC UES repaid its bill debt in the monetary and non-monetary form, having transferred the shares to PJSC FGC UES. The amount of debt as of December 31, 2017 was RUB 72,548 thousand (net of the provision in the amount of RUB 18,828,394 thousand). As of December 31, 2016, the above-mentioned amount included non-interest-bearing notes of LLC Index of Energy – FGC UES (wholly-owned subsidiary of JSC FGC UES) in the amount of RUB 20,024,327 thousand (less RUB 20,646,418 thousand provision); as of December 31, 2015, RUB 6,791,218 thousand (less RUB 33,879,528 thousand provision); as of December 31, 2014, RUB 4,653,882 thousand (less RUB 36,016,863 thousand provision), which are payable on demand. LLC Index of Energy – FGC UES was established through the reorganization of RAO UES of Russia and owns blocks of shares in energy companies, including listed shares. The total amount of notes issued by LLC Index of Energy – FGC UES is based on the market valuation of shares in energy companies as of the date of issue. As at the reporting period end, the value of notes of LLC Index of Energy – FGC UES was adjusted for the amount of changes in the market value of shares owned by LLC Index of Energy – FGC UES.

Other short-term accounts receivable include receivables from subsidiaries and dependent companies in the amount of RUB 7,471,402 thousand as of December 31, 2017 (RUB 27,355,233 thousand outstanding debt, RUB 19,883,831 thousand provision for such amount), against RUB 26,778,031 thousand as of December 31, 2016 (48,901,164 thousand outstanding debt, RUB 22,123,133 thousand provision for such amount) and RUB 14,465,706 thousand as of December 31, 2015 (RUB 49,307,542 thousand outstanding debt, RUB 34,841,836 thousand provision for such amount). Information about related parties is disclosed in paragraph 3.17 of the Notes.

The amount of the provision accrued and recovered during the reporting period is recorded in the column “Recovery/use of provision” in Section 5.1 “Availability and Movement of Debt” of the Notes to the Balance Sheet and the Profit and Loss Statement. In 2017, the amount of receivables written-off against the financial result amounted to RUB 15,692 thousand. (versus RUB 882 thousand in 2016).

3.10 Inventory

Line 1210 of the Balance Sheet item “Inventory” includes the cost of inventories, including goods and work in progress.

Item	RUB, in thousands		
	December 31, 2017	December 31, 2016	December 31, 2015
Materials and raw materials	9,630,509	8,986,085	12,432,348
Other	118,531	122,473	199,991
Total for line 1210 “Inventory”	9,749,040	9,108,558	12,632,339

Raw materials, materials and other similar assets are carried at actual acquisition cost. No provision for their impairment has been established as no items with impairment indicators were identified as of December 31, 2017 while conducting the inventory impairment test.

3.11 Other Current and Non-current Assets

The breakdown of deferred expenses by type of expense is shown in the table below.

Deferred Expense Type	RUB, in thousands		
	December 31, 2017	December 31, 2016	December 31, 2015
Software	281,339	329,025	258,719
Insurance	72	54	209
Other	16,387	20,074	20,824
Total deferred expenses, including	297,798	349,153	279,752
Line 1174 – long-term portion of deferred expenses to be expensed more than 12 months after the reporting date	270,230	318,455	192,750
Line 1260 – short-term portion of deferred expenses to be expensed in equal portions within 12 months of the reporting date	27,568	30,698	87,002

The time limit for repayment of insurance expenses is specified in the insurance agreement and normally does not exceed one year. The time limit for writing-off software expenses does not exceed five years.

3.12 Credits and Loans Received

RUB, in thousands

	December 31, 2017	December 31, 2016	December 31, 2015
Long-term loans and credits			
Long-term bonded loans:	216,185,407	218,889,492	232,061,168
Issue 06 bonds	7,534,586	7,534,586	7,534,586
Issue 07 bonds	1,760,821	1,760,821	1,760,821
Issue 08 bonds	7,314,887	7,314,887	7,314,887
Issue 09 bonds	667,049	-	5,000,000
Issue 10 bonds	29,151	29,151	29,151
Issue 11 bonds	520,989	-	10,000,000
Issue 12 bonds	46,462	46,462	-
Issue 13 bonds	10,000,000	10,000,000	10,000,000
Issue 15 bonds	-	311,961	311,961
Issue 18 bonds	109,762	109,762	109,762
Issue 19 bonds	-	20,000,000	20,000,000
Issue 21 bonds	419,838	-	10,000,000
Issue 22 bonds	10,000,000	10,000,000	10,000,000
Issue 23 bonds	10,000,000	10,000,000	10,000,000
Issue 24 bonds	10,000,000	10,000,000	10,000,000
Issue 25 bonds	1,781,862	1,781,862	-
Issue 26 bonds	15,000,000	15,000,000	15,000,000
Issue 27 bonds	11,000,000	11,000,000	11,000,000
Issue 28 bonds	20,000,000	20,000,000	20,000,000
Issue 29 bonds	20,000,000	20,000,000	20,000,000
Issue 30 bonds	10,000,000	10,000,000	10,000,000
Issue 34 bonds	14,000,000	14,000,000	14,000,000
Issue 37 bonds	20,000,000	20,000,000	20,000,000
Issue 38 bonds	20,000,000	20,000,000	20,000,000
Issue BO-02 bonds	10,000,000	10,000,000	-
Issue BO-03 bonds	9,000,000	-	-
Issue BO-04 bonds	7,000,000	-	-
Long-term loans (eurobonds):	17,500,000	17,500,000	17,500,000
Federal Grid Finance Limited	17,500,000	17,500,000	17,500,000
Long-term external loans:	177,050	263,971	99,200
PJSC URALKALI	-	108,971	-
TULACHERMET-STAL LLC	80,000	80,000	80,000
Yandex DTs Vladimir LLC	64,000	64,000	19,200
Rodina LLC	11,000	11,000	-
NewBio LLC	22,050	-	-
Total long-term credits and loans	233,862,457	236,653,463	249,660,368
Short-term loans	December 31, 2017	December 31, 2016	December 31, 2015
Short-term bonded loans:	20,311,961	25,000,000	25,000,000
Issue 09 bonds	-	5,000,000	-
Issue 11 bonds	-	10,000,000	-
Issue 12 bonds	-	-	10,000,000
Issue 15 bonds	311,961	-	-
Issue 19 bonds	20,000,000	-	-
Issue 21 bonds	-	10,000,000	-
Issue 25 bonds	-	-	15,000,000
Short-term external loans:	108,971	-	-
PJSC URALKALI	108,971	-	-
Interest accrued:	3,266,261	4,195,354	6,361,933
Total short-term loans	23,687,193	29,195,354	31,361,933

Information about bond issues as of the reporting date is shown in the table below:

Series	Value of issued bonds thousand RUB	Quantity mln pcs.	Par value RUB	Rate,%	Date of bond placement	Date of state registration of security issue	Term to maturity (from bond placement date) days	RUB, in thousand s	
								Coupon yield on each bond RUB	Interest accrued for 2017 thousand RUB
6	7,534,586	7.5	1,000	8.25	September 28, 2010	November 5, 2009	3,640	41.14	621,649
7	1,760,821	1.7	1,000	7.50	October 29, 2010	November 5, 2009	3,640	37.40	132,071
8	7,314,887	7.3	1,000	8.25	September 28, 2010	November 5, 2009	3,640	41.14	603,518
9	667,049	0.6	1,000	0.10	October 29, 2010	November 5, 2009	3,640	0.50	320,865
10	29,151	0.03	1,000	7.75	September 28, 2010	November 5, 2009	3,640	38.64	2,259
11	520,989	0.5	1,000	0.10	October 29, 2010	November 5, 2009	3,640	0.50	641,578
12	46,462	0.046	1,000	8.10	April 27, 2012	June 7, 2011	2,548	40.39	3,764
13	10,000,000	10	1,000	8.50	July 5, 2011	June 7, 2011	3,640	42.38	849,929
15	311,961	0.3	1,000	8.75	October 27, 2011	October 12, 2023	3,640	43.63	27,296
18	109,762	0.1	1,000	8.50	December 12, 2011	June 7, 2011	4,368	42.38	9,329
19	20,000,000	20	1,000	7.95	July 21, 2011	June 7, 2011	4,368	39.64	1,589,956
21	419,838	0.4	1,000	7.40	October 24, 2012	June 21, 2012	5,460	36.90	296,695
22	10,000,000	10	1,000	6.90	August 8, 2012	June 21, 2012	5,460	34.41	767,055
23	10,000,000	10	1,000	3.70	June 10, 2013	June 21, 2012	12,740	9.22	552,785
24	10,000,000	10	1,000	8.00	January 25, 2013	June 21, 2012	5,460	39.89	799,992
25	1,781,862	1.8	1,000	9.00	October 2, 2012	June 21, 2012	5,460	44.88	149,036
26	15,000,000	15	1,000	4.00	August 13, 2013	June 21, 2012	12,740	9.97	843,760
27	11,000,000	11	1,000	4.00	August 13, 2013	June 21, 2012	12,740	9.97	618,757
28	20,000,000	20	1,000	3.70	June 10, 2013	June 21, 2012	12,740	9.22	1,105,569
29	20,000,000	20	1,000	4.30	October 21, 2013	June 21, 2012	12,740	10.72	1,116,538
30	10,000,000	10	1,000	3.70	December 13, 2013	November 14, 2013	12,740	9.22	556,512
34	14,000,000	14	1,000	3.70	December 13, 2013	November 14, 2013	12,740	9.22	779,117
37	20,000,000	20	1,000	4.00	May 6, 2015	November 14, 2013	12,740	9.97	1,113,831
38	20,000,000	20	1,000	4.00	May 6, 2015	November 14, 2013	12,740	9.97	1,113,831
BO-02	10,000,000	10	1,000	9.35	November 29, 2016	October 17, 2051	12,740	23.31	934,962

BO-03	9,000,000	9	1,000	7.75	October 20, 2017	September 6, 2052	12,740	19.32	137,575
BO-04	7,000,000	7	1,000	7.60	December 6, 2017	October 23, 2052	12,740	18.95	36,442
Total	236,497,368	236.276						672.88	15,724,671

3.13 Accounts Payable

The itemization of line 1521 “Accounts payable to suppliers and contractors” of the Balance Sheet is shown in the table below:

RUB, in thousands

Creditor	December 31, 2017	December 31, 2016	December 31, 2015
Payables to suppliers and contractors:			
JSC Financial Settlements Center	3,066,583	1,110,537	1,286,380
JSC Stroytransgaz	1,378,273	1,514,408	5,002,581
JSC GlobalElektroServis	957,608	3,297,470	4,318,045
Other (less than 10% of line 1521 individually)	24,980,972	25,125,475	31,672,846
Line 1521	30,383,436	31,047,890	42,279,852

Accounts payable to suppliers and contractors include payables to subsidiaries and dependent companies in the amount of RUB 3,106,085 thousand as of December 31, 2017 (versus RUB 2,334,956 thousand as of December 31, 2016; RUB 2,940,799 thousand as of December 31, 2015).

The itemization of line 1525 “Advances received” of the Balance Sheet is shown in the table below:

RUB, in thousands

Creditor	December 31, 2017	December 31, 2016	December 31, 2015
Advances received:			
JSC DRSK	4,937,927	3,112,051	2,332
LLC “Zapsibneftechim”	2,782,584	1,171,839	71,839
JSC Zagorskaya Hydroelectric Pumped Storage Power Plant 2	1,400,003	1,400,003	1,400,003
JSC Caspian Pipeline Consortium-R	226,255	539,531	1,142,360
JSC Fortum	739	8,356	1,408,945
Other (less than 10% of line 1525 individually)	3,153,500	1,940,098	2,104,165
Line 1525	12,501,008	8,171,878	6,129,644

The advance payments received include those related to subsidiaries and affiliates for the amount of RUB 43,147 thousand as of December 31, 2017 (versus RUB 38,618 thousand as of December 31, 2016; RUB 38,579 thousand as of December 31, 2015).

The itemization of line 1526 “Other accounts payable” of the Balance Sheet is shown in the table below:

III. RUB, in thousands

Type of receivables	December 31, 2017	December 31, 2016	December 31, 2015
VAT	2,512,516	2,924,959	1,299,721
Other creditors, including	1,108,695	1,059,545	639,639
<i>Settlements under voluntary insurance payments</i>	<i>555,986</i>	<i>375,362</i>	<i>352,609</i>
<i>Other settlements (less than 10% of line 1526 individually)</i>	<i>552,709</i>	<i>684,183</i>	<i>287,030</i>
Line 1526	3,621,211	3,984,504	1,939,360

Other accounts payable include debts owed to subsidiaries and dependent companies as of December 31, 2017 in the amount of RUB 26,649 thousand (as against RUB 26,245 thousand as of December 31, 2016 and RUB 23,682 thousand as of December 31, 2015).

Information about related parties is disclosed in paragraph 3.17 of the Notes.

3.14 Deferred income

Pursuant to Decree of the Ministry of Energy of the Russian Federation No. 721 dated October 13, 2014, the Company received a subsidy of RUB 895,591,680 in 2014 as reimbursement for expenses associated with the replenishment of standby diesel generators ensuring the reliability of energy supply to socially important customers in the Russian Federation during the 2014/2015 heating season.

Line 1530 of the Balance Sheet shows a subsidy to be reimbursed as depreciation is accrued in the subsequent reporting periods in accordance with the requirements set forth in RAS 13/2000 "Government Aid Accounting." The deferred income recognized as of December 31, 2017 is RUB 667,978 thousand (RUB 694,611 thousand as of December 31, 2016; RUB 739,768 thousand as of December 31, 2015).

3.15 Miscellaneous Income and Expenses

Miscellaneous income includes the following items:

RUB, in thousands

Type of income	2017	2016
Income from restoration of provisions for doubtful debts	10,556,960	17,902,283
Fines, late payment charges, damages	6,842,111	5,849,139
Revenues from re-valuation of securities at market value	20,622	39,769,831
Miscellaneous income (less than 10% of the line)	6,112,657	9,433,289
Total miscellaneous income	23,532,350	72 954,542

Miscellaneous expenses include the following items:

RUB, in thousands

Type of expense	2017	2016
Provision for doubtful debts	8,232,295	9,811,334
Negative difference resulting from re-valuation of securities at market value	7,496,003	-
Expenses in connection with the devaluation of fixed assets	58,218	2,376,851
Miscellaneous expenses (less than 10% of the line)	9,099,021	8,579,779
Total miscellaneous expenses	24,885,537	20,767,964

The Company's Profit and Loss Statement as of December 31, 2017 and December 31, 2016 shows (without detail) expenses and associated income resulting from the same or a similar business fact:

- from the accrual and restoration of the provisions for doubtful debts (by counterparty and contract);
- from exchange difference income and expenses;
- when recording income and expenses of prior years (by counterparty and contract).

Line code	Line description	Unadjusted amount	Adjustment, RUB in thousands	Adjusted amount
Adjustment for 2017				
2340	Other income	49,837,291	(26,304,941)	23,532,350
2350	Miscellaneous expenses	51,190,478	(26,304,941)	24,885,537
Adjustment for 2016				
2340	Other income	108,910,185	(35,955,643)	72,954,542
2350	Miscellaneous expenses	56,723,607	(35,955,643)	20,767,964

Line item 2120 of the Profit and Loss Statement includes management expenses of the Company's branches, which, under the Company's Accounting Policy, are recognized as production expenses and amounted to RUB 3,972,507 thousand in 2017 (as against RUB 4,229,567 thousand in 2016).

In line 5660 of the table-format appendices to the Balance Sheet and the Profit and Loss Statement, the expenses recorded in lines 2120 and 2220 of the Profit and Loss Statement are broken down by cost element.

Ordinary expenses include expenses associated with energy resources which may be divided into two groups: heat and electricity for auxiliary needs and electricity required to cover losses in transmission via electrical networks. Payment for losses by customers is included in the electricity transmission service fee.

RUB, in thousands		
Type of energy resource	2017	2016
Electric power purchased to cover losses in transmission via electrical networks	24,189,499	14,722,209
Heat, electricity and fuel purchased for auxiliary needs	728,125	691,279
Total expenses associated with energy resources	24,917,624	15,413,488

3.16 Earnings per Share

The basic earnings per share reflect a share of profits within a reporting period, which may be potentially distributed among holders of ordinary shares. It is calculated as the ratio of basic earnings for the reporting year to the weighted average number of ordinary shares that remained outstanding during the reporting year. Basic earnings are equal to the net profit of the reporting year.

Indicator	2017	2016
Basic profit (loss) for the reporting year, RUB in thousands	42,361,640	106,070,911
Weighted average number of ordinary shares that remained outstanding during the reporting year, pieces	1,274,665,323,063	1,274,665,323,063
Basic profit (loss) per share, RUB	0.0332	0.0832

In 2017, the weighted average number of shares that remained outstanding during the reporting year was calculated as follows: $(1,274,665,323,063 \cdot 12) / 12$ months.

The Company has neither convertible securities nor agreements for the purchase and sale of ordinary shares from the issuer at a price lower than their market value.

3.17 Related Parties

The list of related parties of the Company is available on the Company's website at www.fsk-ees.ru. The list of members of the Board of Directors and the Management Board is disclosed in Section I "General Information" of these Notes. The list of related parties includes PJSC Russian Grids and its subsidiaries and dependent companies.

Revenue from Sales to Related Parties

Buyer	2017	2016	2015
RUB, in thousands			
Electric power transmission services:			
PJSC MOESK	18,645,859	16,443,403	14,831,677
JSC Tyumenenergo	18,094,337	17,199,901	16,597,642
PJSC "MRSK of Center"	16,823,055	15,937,202	15,259,790
JSC "MRSK of Ural"	15,850,987	14,804,729	14,233,664
Other (less than 10% of revenue (on an individual basis) from electric power transmission to related parties)	68,666,878	64,716,210	59,003,215
Total electric power transmission services	138,081,116	129,101,445	119,925,988
Services for technological connection			
JSC EESK	28,433	-	-
JSC Tyumenenergo	17,375	32,927	12,442
PJSC Lenenergo	11,630	5,593	973
PJSC "MRSK of Siberia"	1,238	36,923	3,135
PJSC Kubanenergo	475	221	1,215,946
JSC "MRSK of Ural"	243	19,232	10,043
Other (less than 10% of revenue (on an individual basis) from technological connection services provided to related parties)	18,711	16,354	19,913
Services for technological connection, total	78,105	111,250	1,262,452
Other types of revenue:			
PJSC Russian Grids	330,811	311,578	314,359
JSC "MUS of Electric Power Industry"	115,268	115,162	110,190
JSC Yantarenergo	91,292	140,148	140,148
JSC CEMC UES	85,854	103,291	98,654
Other (less than 10% of other types of revenue (on an individual basis) from related parties)	244,372	221,128	235,151
Total for other types of revenue	867,597	891,307	898,502
TOTAL revenue from sales to related parties	139,026,818	130,104,002	122,086,942

Purchases from Related Parties

RUB, in thousands

Buyer	2017	2016	2015
Maintenance and repair services:			
JSC ElektroSetServis of the UNES	935,947	1,009,190	1,101,793
IT Energy Service LLC	288,811	288,279	235,634
Other (less than 10% on an individual basis from maintenance and repair services provided to related parties)	67,724	53,886	45,212
Total maintenance and repair services	1,292,482	1,351,355	1,382,639
Services relating to acting as owner and developer:			
JSC CEMC UES	1,623,500	1,407,500	1,468,750
Total for owner and developer services	1,623,500	1,407,500	1,468,750
Tendering services and delivery of equipment and inventories:			
JSC R&D Center FGC UES	670,871	77,793	82,105
JSC ElektroSetServis of the UNES	314,632	559,939	398,356
JSC Energostroysnabkomplekt	174,775	167,663	165,408
Other (less than 10% on an individual basis from tendering services and delivery of equipment and inventories to related parties)	22,005	11,511	79,286
Total for tendering services and delivery of equipment	1,182,283	816,906	725,155
Services relating to construction and assembly, design and survey works:			
JSC R&D Center FGC UES	1,242,396	1,086,746	234,933
JSC ElektroSetServis of the UNES	755,812	1,110,348	777,310
Other (less than 10% on an individual basis from services relating to construction and assembly, design and survey works)	72,985	179,303	432,577
Total for services relating to construction and assembly, design and survey works	2,071,193	2,376,397	1,444,820
Telecommunications services and maintenance of telecommunication systems			
JSC "MUS of Electric Power Industry"	663,160	688,559	812,743
Other (less than 10% on an individual basis from telecommunications services and maintenance of telecommunication systems)	2,393	2,799	2,726
Total telecommunications services and maintenance of telecommunication systems	665,553	691,358	815,469
Other services:			
PJSC Russian Grids	722,495	516,451	482,000
JSC Kuban Backbone Grids	456,457	124,089	123,750
JSC R&D Center FGC UES	409,222	224,303	122,603
JSC Tomsk Backbone Grids	190,943	191,466	190,943
Other (less than 10% on an individual basis from other services provided to related parties)	93,331	88,129	156,194
Total other services	1,872,448	1,144,438	1,075,490
TOTAL purchases from related parties	8,707,459	7,787,954	6,912,323

Other services include property lease services, R&D services, and other production-related services.

The services were rendered to the Company at regular current prices for which similar services are provided by the above-mentioned counterparties in the ordinary course of business. The services are disclosed without VAT. Settlements for services rendered to the Company are made once services are fully rendered.

Status of Settlements with Related Parties

Accounts Receivable

RUB, in thousands

Debtor	December 31, 2017		December 31, 2016		December 31, 2015	
	debt	provision	debt	provision	debt	provision
Accounts receivable from buyers and customers:	29,980,766	3,064,105	40,170,827	6,200,743	38,290,875	7,214,692
PJSC "MRSK of South"	5,630,070	-	6,365,801	109,572	4,713,868	109,572
PJSC MOESK	4,606,483	-	3,309,588	587,674	1,041,270	587,674
PJSC "MRSK of Siberia"	951,949	-	5,280,895	193,084	5,702,372	193,084
PJSC Lenenergo	691,675	-	4,438,178	197,765	6,157,744	153,805
Other	18,100,589	3,064,105	20,776,365	5,700,322	20,675,621	6,170,557
Advances made:	5,595,374	800,000	4,404,546	1,203,155	3,183,890	991,258
JSC CEMC UES	2,287,475	-	1,510,030	-	-	-
JSC R&D Center FGC UES	878,678	-	442,937	-	481,126	-
PJSC "MRSK of North Caucasus"	802,950	800,000	802,950	800,000	800,000	800,000
JSC ElektroSetServis of the UNEG	357,564	-	466,767	-	661,546	-
Other	1,268,707	-	1,181,862	403,155	1,241,218	191,258
Other accounts receivable	30,431,543	20,213,018	52,754,251	22,948,260	51,635,159	35,543,945
Index of Energy – FGC UES LLC	18,901,362	18,828,394	40,670,745	20,646,418	40,670,745	33,879,527
JSC "Kuban Backbone Grids"	5,490,441	-	5,734,187	421,690	6,595,917	382,709
Other	6,039,740	1,384,624	6,349,319	1,880,152	4,368,497	1,281,709
TOTAL accounts receivable from related parties	66,007,683	24,077,123	97,329,624	30,352,158	93,109,924	43,749,895

** Non-interest-bearing notes

Accounts Payable

RUB, in thousands

Creditor	December 31, 2017	December 31, 2016	December 31, 2015
Settlements with suppliers and contractors:	3,305,597	2,636,674	3,821,099
JSC CEMC UES	1,232,446	364,716	396,775
PJSC R&D Center FGC UES	560,750	335,467	237,108
OJSC Tomsk Backbone Grids	546,924	546,924	414,205

Creditor	December 31, 2017	December 31, 2016	December 31, 2015
JSC ElektroSetServis of the UNEG	474,367	785,103	622,621
JSC “Kuban Backbone Grids”	57,055	34,512	1,018,513
PJSC Russian Grids	40,752	77,867	568,760
Other (less than 10% on an individual basis from settlements with suppliers and contractors)	393,303	492,085	563,117
Settlements related to advances received:	455,259	472,938	628,390
PJSC Kubanenergo	176,014	180,490	241,830
PJSC Lenenergo	50,321	43,155	46,002
PJSC MOESK	47,273	47,573	46,557
JSC Tyumenenergo	33,916	47,269	80,505
Other (less than 10% on an individual basis of settlements related to advances received)	147,735	154,451	213,496
Other accounts payable:	34,133	26,349	23,783
JSC “Kuban Backbone Grids”	26,609	26,204	23,642
JSC ElektroSetServis of the UNES	5,327	-	-
Other (less than 10% on an individual basis of other accounts payable to related parties)	2,197	145	141
TOTAL payables to related parties	3,794,989	3,135,961	4,473,272

Remuneration Payable to Members of the Board of Directors, Management Board, Board of Directors’ Committees, Internal Audit Commissions

Remuneration payable to members of the Board of Directors and the Management Board for the duties they fulfill in their respective positions consists of their salaries provided for in their employment contracts, as well as year-end performance-based bonuses.

In 2017, the amount of remuneration paid to members of the Board of Directors and the Management Board totaled RUB 352,312 thousand (against RUB 345,570 thousand in 2016 and RUB 340,222 thousand in 2015). In 2017, 2016 and 2015, no contributions were made to voluntary pension insurance. The amount of compulsory insurance contributions in 2017 was RUB 57,605 thousand against RUB 50,627 thousand in 2016 and RUB 52,693 thousand in 2015. The amount of other noncash remuneration in 2017 was RUB 80 thousand as against RUB 113 thousand in 2016, RUB 110 thousand in 2015. The amount of benefits paid to members of the internal audit commissions was RUB 531 thousand in 2017, RUB 576 thousand in 2016, RUB 573.5 thousand in 2015.

The list of members of the Board of Directors and the Management Board is provided in Section I “General information” of the Notes.

Related-party cash flows are shown in the table below:

RUB, in thousands			
Indicator	Code	For 2017	For 2016
Cash flows from current transactions:			
Proceeds from the sale of goods	4111	146,836,124	129,255,029
Proceeds from rentals	4112	653,323	595,009
Other proceeds	4119	2,485,406	1,447,796

Payments to suppliers for raw and other materials, works, services	4121	(4,036,463)	(3,446,687)
Other amounts paid and transferred	4129	24,174,729	21,219,548
Cash flows from investment activities:			
Proceeds from the repayment of extended loans, the sale of debt securities (monetary claims against third parties)	4213	16,107,160	17,361,900
Proceeds in the form of dividend, interest on debt financial investments and other similar proceeds from the ownership of stakes in other entities	4214	2,861,734	2,028,602
Payments associated with the acquisition, establishment, upgrade, rehabilitation and preparation for the use of non-current assets	4221	(9,316,363)	(7,441,173)
Payments associated with the purchase of debt securities (claims for cash against third parties), granting loans to third parties	4223	(16,091,032)	(10,355,719)
Cash flow from financial transactions:			
Payment of dividend and other sums of profit distributed among owners (members)	4322	(15,895,445)	(13,602,970)

3.18 Relations with Non-state Pension Fund of the Electric Power Industry

The amount of contributions to the Non-state Pension Fund of the Electric Power Industry engaged in voluntary pension insurance for the Company's employees throughout 2017 was RUB 433,074 thousand (against RUB 590,841 thousand in 2016 and RUB 327,335 thousand in 2015). As of December 31, 2017, the balance of settlements with the Non-State Pension Fund of the Electric Power Industry was RUB 227 thousand in joint account (RUB 732 thousand as of December 31, 2016, and RUB 2,448 thousand as of December 31, 2015).

3.19 Cash and Cash Equivalents

The itemization of cash and cash equivalents is as follows:
RUB, in thousands

Indicator	December 31,	December 31,	December 31,
Funds on settlement accounts	5,111,152	13,131,135	2,113,806
Cash on special accounts with banks	28,297,955	22,876,703	19,863,502
Financial documents	-	-	25
Total cash (line 1250)	33,409,107	36,007,838	21,977,333

All cash is available for use by the Company.

The value of cash flows required to maintain the existing scope of the Company's transactions is recorded as current transactions in Form 4 "Cash Flow Statement".

Breakdown of other receipts and other payments relating to daily operations:

	RUB, in thousands	
Other proceeds and payments related to daily operations	December	December
Interest for payment by installments under power transmission contracts	5,638,430	1,887,798
Interest on short-term deposits (cash equivalents)	2,178,304	1,781,173
Settlements in respect of receivable fines and penalties	1,622,489	1,884,805
Bank account interest	294,008	1,075,882
Other proceeds	7,806,185	1,361,809

Other proceeds and payments related to daily operations	December	December
Total other receipts (line 4119)	17,539,416	7,991,467
Tax and fund payments (exclusive of VAT)	17,300,537	16,333,185
VAT	5,885,651	3,346,458
Insurance payments	1,418,186	1,559,384
Other payments	4,569,325	2,965,968
Total other payments (line 4129)	29,173,699	24,204,995

Interest received for payment by installments under power transmission contracts and recognized as current expenses was moved from line 4214 “Proceeds in the form of dividend, interest on debt financial investments and other similar proceeds from the ownership of stakes in other entities” of section “Cash flows from investing activities” to line 4119 “Other proceeds” of section “Cash flows from daily operations” of the Cash Flow Statement.

Line code	Line description	Unadjusted amount	Adjustment, RUB thousand	Adjusted amount
Adjustment for 2017				
4119	Other proceeds	11,900,987	5,638,430	17,539,417
4214	Proceeds in the form of dividend, interest on debt financial investments and other similar proceeds from the ownership of stakes in other entities	8,401,917	(5,638,430)	2,763,487
Line code	Line description	Unadjusted amount	Adjustment, RUB thousand	Adjusted amount
Adjustment for 2016				
4119	Other proceeds	7,991,467	1,887,798	9,879,265
4214	Proceeds in the form of dividend, interest on debt financial investments and other similar proceeds from the ownership of stakes in other entities	5,088,695	(1,887,798)	3,200,897

3.20 Information by Segment

The principal activities of the Company is provision of services of electric power transmission via UNEG, and these activities is one separate production segment which is allocated by the Company based on existing organizational and management structure and amounts to 89.1% of the proceeds from the sales of goods, products, works and services. Other activities, such as the provision of services for connection to the grid systems, provision of lease services, etc. do not comply with the conditions of detachment of reporting segments as set in RAS 12/2010 Segments Details, so their details are not reflected separately.

3.21 Securing Liabilities

Line item 5810 “Liabilities issued” of the Annex to the Accounting Balance Sheet reflects the following as of the end of the reporting year:

- guarantee obligations to JSC Mobile GTES, amounting to RUB 2,500,000 thousand;
- guarantee obligations to State Unitary Enterprise TechnoPromExport Foreign Economic Association, amounting to RUB 30,815 thousand;
- liabilities issued to banks for the Company’s employees in relation to housing loans, amounting to RUB 49,773 thousand.

Line item 5800 “Liabilities received” of the Annex to the Accounting Balance Sheet reflects the following:

- the sum of liabilities, amounting to RUB 65,689,412 thousand, represents bank guarantees against advances and liabilities, which are paid by the Company in accordance with the terms and conditions of contracts for the construction of electric power facilities.
- guarantee obligations from PJSC “MMC “Norilsk Nickel”, amounting to RUB 2,400,000 thousand;
- liabilities under apartment pledge agreements, amounting to RUB 651,346 thousand;
- the amount of other liabilities is RUB 64,267 thousand.

Entities guaranteeing the security received in the form of guarantees in favor of third parties (paragraph 8 of the Annex to the Balance Sheet and the Profit and Loss Statement):

Corporate Guarantor	RUB, in thousands		
	December 31, 2017	December 31, 2016	December 31, 2015
Sberbank of Russia PJSC	7,942,096	8,690,243	5,103,234
JSCB Bank of Moscow (Open Joint-Stock Company)	3,188,777	7,628,849	5,166,834
PJSC OTKRITIE FC BANK	7,405,755	7,414,772	5,192,754
Other (less than 10% of the BG amount)	47,152,784	54,003,645	34,600,887
TOTAL	65,689,412	77,737,509	50,063,709

3.22 Estimated Liabilities, Contingent Liabilities and Contingent Assets

The Russian tax, currency and customs laws are open to various interpretations and are subject to frequent changes.

The Company’s management does not rule out that in the future there may be disputes with supervisory authorities over certain transactions performed in the reporting or prior periods (including transactions relating to reorganization of the Company, as well as any reforms in the electric power industry), which may result in changes in the Company’s economic performance. In accordance with paragraph 28 of the Accounting Regulations for “Estimated Liabilities, Contingent Liabilities and Contingent Assets” (AR No. 8/2010), no detailed information about such transactions is disclosed in the report.

The practice of tax audits suggests that tax authorities may take a more rigorous stance in the interpretation of laws and the audits of tax calculations, and that certain transactions and operations which have not been disputed earlier may be subject to dispute in the future. Consequentially, significant

additional taxes, penalties and fines may be assessed. Tax audits may cover periods of three calendar years of operations which immediately preceded the audit year. Under certain circumstances, even earlier periods may be subject to audits.

The Company's Management believes that as of December 31, 2017, the relevant provisions of laws were interpreted by the Management correctly, and the Company's standing will remain stable from the standpoint of tax, currency and customs laws.

Expenses associated with non-state pension fund scheme for employees are partly recognized in the 2017 statements to the extent of liabilities for which repayment conditions are in place (a sum of RUB 38,351 thousand).

Expenses associated with non-state pension fund scheme for employees in respect of which the conditions set forth in subparagraph b of paragraph 5 of AR 8/2010 are not fulfilled are treated as contingent and not recognized in the 2017 statements.

As of December 31, 2017, the amount of contingent liabilities was RUB 188,842 thousand (against RUB 248,484 thousand as of December 31, 2016, and RUB 260,740 thousand as of December 31, 2015).

Balance sheet line 1540 "Estimated liabilities" shows:

RUB, in thousands

Estimated liability	December 31, 2017	December 31, 2016	December 31, 2015
Amount of expenses associated with the establishment of provision for annual (basic and additional) leave pay	867,969	816,145	762,619
Amount of expenses associated with the establishment of provision for payment of remuneration for the reporting period	1,049,578	945,416	876,899
Amount of expenses associated with the establishment of provision for payment of liabilities with respect to non-state pension fund for the reporting period	38,351	106,428	265,869
Amount of expenses associated with the establishment of provisions for forthcoming expenses and payments under contract terms	560,871	558,840	-
	2,516,769	2,426,829	1,905,387

If the conditions set forth in subparagraph b of paragraph 5 of AR 8/2010 are not fulfilled, the Company's obligations that depend on the occurrence (non-occurrence) of one or several future uncertain events not controlled by the Company are treated as contingent and not recognized by the Company in its 2017 statements:

- contingent liabilities for the remuneration of managers for the achievement of targets based on the 2016 results:

RUB, in thousands

Year	Bonus based on Q4 performance	Bonus based on H2 performance	Year-end performance-based bonus	Total amount of remuneration
2017	-	-	297,140	297,140
2016	-	-	326,903	326,903

2015	-	-	267,642	267,642
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3.23 Information about expenses associated with energy resources in accordance with Federal Law No. 261-FZ “On Energy Conservation and Enhancement of Energy Efficiency and Introduction of Amendments to Certain Legislative Acts of the Russian Federation” dated November 23, 2009”

In the course of its business operations, the Company consumes electricity and heat for auxiliary needs as follows:

RUB, in thousands

Type of energy resource	Plan for 2018		For 2017		For 2016	
	Use		Use		Use	
	For auxiliary needs	Losses	For auxiliary needs	Losses	For auxiliary needs	Losses
Electricity	276,216	38,741,724	161,881	24,189,499	148,687	14,722,209
Heat power			67,090		66,135	

3.24 Environmental Indicators

In 2017, the total amount of expenses incurred by PJSC FGC UES in connection with the implementation of environmental activities was RUB 291.40 million (as against RUB 189.53 million in 2016), of which:

- RUB 79.50 million is capital expenses (fixed capital expenditure for environmental protection) (RUB 7.41 million in 2016);
- RUB 58.27 million is expenses for protection of water bodies (RUB 68.91 million in 2016);
- RUB 9.27 million is expenses for protection of atmosphere air (RUB 11.06 million in 2016);
- RUB 89.65 million is expenses for protection of land resources from production and consumer waste (RUB 69.65 million in 2016);
- RUB 1.52 million is expenses for performance of the work on implementation of the requirements of ISO 14001:2015 in PJSC FGC UES’ EMS and conducting a recertification audit of the environmental management system of PJSC FGC UES (RUB 0.38 million in 2016);
- RUB 53.19 million is other expenses, including the installation of bird protection and scaring devices aimed at preventing and avoiding electric shock to birds and reducing the number of electric grid facility outages caused by birds (RUB 32.12 million in 2016).

In 2017, the pollution charge for the negative impact on the environment was RUB 4.34 million (as against RUB 4.45 million in 2016).

According to the approved Environmental Policy Implementation Program of PJSC FGC UES, in 2017 the Company carried out the measures aimed at:

- developing executive documents in the field of environmental safety and environmental management system;
- exercising industrial ecological control (laboratory tests of air quality, waste and underground water quality, physical effects analysis);
- developing the environmental approvals and permits;
- obtaining licenses for the right to use subsurface mineral resources for the purpose of underground water extraction;
- installing bird guards to prevent and exclude cases of electric shock to birds;
- equipping waste accumulation places;
- repairing, reconstructing and maintaining oil receivers, water supply and water removal facilities.

According to the resolution of PJSC FGC UES' Board of Directors, the Company introduced the environmental management system (EMS) certificated for compliance with the requirements of ISO 14001.

In 2017, as part of transition to the new version of ISO 14001:2015, which changes the approach to the environmental management system and sets new requirements, including those related to identification and management of environmental risks, PJSC FGC UES performed the work on implementation of these requirements in the Company's EMS. In November-December of the current year, an independent certification body conducted the recertification audit, according to which PJSC FGC UES' EMS was recognized as fully compliant with the requirements of ISO 14001:2015, and the certificate of compliance of PJSC FGC UES' EMS was issued for the period until 2020.

On March 25, 2017, PJSC FGC UES took part in the worldwide movement "Earth Hour" once again. The purpose of the annual "Earth Hour" movement is to draw attention of society to environmental issues, climate changes, the issues of rational use of natural resources, destruction of forests, reduction in the number of animals. As part of the "Earth Hour" movement, the lighting of office buildings, emergency lighting of the territories of substations and other facilities which do not have an impact on industrial activity and safety was turned off. In total, 762 facilities of FGC UES took part in the "Earth Hour", the total volume of the electric power saved was 9,992.09 kWh (10,307.836 kWh in 2016).

In order to meet the requirements of the Stockholm Convention on Persistent Organic Pollutants ratified by the Russian Federation in 2017, PJSC FGC UES transferred for decontamination / storage 10,382 units of equipment containing one of the types of persistent organic pollutants (trichlorodiphenyl) with the total weight of 382.4 tons.

In 2017, as part of the XIII All-Russian Competition to select the 2017 Environmental Protection Leader in Russia, Federal Grid Company was recognized as the best sustainable company in the electric power industry.

3.25 Financial Crisis

PJSC FGC UES is a natural monopoly specializing in power transmission via backbone networks, it is on the list of systemically and strategically important entities whose activity is regulated by the

relevant executive authorities, which allows guaranteeing sustainable mid-term functioning and development of PJSC FGC UES.

Decree of the Federal Tariff Service (FST) of Russia No. 297-e/3 of December 9, 2014 “On the Approval of Tariffs for Services Relating to Electricity Transmission via the Unified National Electric Grid Provided by PJSC FGS UES”, as amended by Decree of the Russian Federal Antimonopoly Service No. 1748/17 (dated December 19, 2017), approves tariffs for the long regulatory period of 2015-2019.

The 2018 Business Plan of PJSC FGC UES and the projections for 2019–2022 are prepared with due consideration of the strategic priorities formulated in the Energy Strategy of Russia for the Period Until 2030 (approved by Directive of the Russian Federation Government No. 1715-r dated November 13, 2009), as well as the Strategy for Development of the Electric Grid Facilities of the Russian Federation (approved by the Russian Government Directive No. 511-r dated April 3, 2013), which do not provide for any significant structural transformations in Russia’s energy industry.

A balanced approach to setting the targets specified in the 2018 Business Plan of PJSC FGC UES and the projections for 2019–2022, with due account for execution of directive instructions of the Russian Federation Government on reduction of costs and enhancement of operating efficiency, as well as optimal use of tangible, labor and financial resources, allows assessing PJSC FGC UES as a financially sound company with sufficient liquidity and solvency levels, which proves the ability of PJSC FGC UES to continue its operations over the long term.

Future economic development of the Russian Federation largely depends on the efficiency of decisions adopted by the Russian Government given changes in taxation, law as well as political changes.

The Company’s management is unable to foresee all possible changes which may impact the Russian economy and hence the effects of such impact on the Company’s future financial standing. The Company’s management takes every possible measure to support the financial standing and future business growth of the Company.

3.26 Events after the Reporting Date

On January 18, 2018, the Company paid out the first coupon under Series BO-03 bonds for a total of RUB 173,880,000.00. The state registration number of the issue is 4B02-03-65018-D dated June 6, 2012. The interest rate for the first coupon is 7.75% per annum, the coupon yield being RUB 19.32 per bond.

On January 18, 2018, the Company paid out the tenth coupon under Series 24 bonds for a total of RUB 398,900,000.00. The state registration number of the issue is 4-24-65018-D dated June 21, 2012. The interest rate for the tenth coupon is 8.0% per annum, the coupon yield being RUB 39.89 per bond.

On January 30, 2018, the Company paid out the eleventh coupon under Series 37 bonds for a total of RUB 199,400,000.00. The state registration number of the issue is 4-37-65018-D dated November 14, 2013. The interest rate for the eleventh coupon is 4.0% per annum, the coupon yield being RUB 9.97 per bond.

On January 30, 2018, the Company paid out the eleventh coupon under Series 38 bonds for a total of RUB 199,400,000.00. The state registration number of the issue is 4-38-65018-D dated November 14,

2013. The interest rate for the eleventh coupon is 4.0% per annum, the coupon yield being RUB 9.97 per bond.

On January 30, 2018, the Company paid out the eleventh coupon under Series 22 bonds for a total of RUB 344,100,000.00. The state registration number of the issue is 4-22-65018-D dated June 21, 2012. The interest rate for the eleventh coupon is 6.9% per annum, the coupon yield being RUB 34.41 per bond.

On January 10, 2018, the Company paid out the thirteenth coupon under Series 19 bonds for a total of RUB 792,800,000.00. The state registration number of the issue is 4-19-65018-D dated June 7, 2011. The interest rate for the thirteenth coupon is 7.95% per annum, the coupon yield being RUB 39.64 per bond.

On January 12, 2018, the Company paid out the seventeenth coupon under Series 29 bonds for a total of RUB 214,400,000.00. The state registration number of the issue is 4-29-65018-D dated June 21, 2012. The interest rate for the seventeenth coupon is 4.3% per annum, the coupon yield being RUB 10.72 per bond.

On February 5, 2018, the Company paid out the eighteenth coupon under Series 27 bonds for a total of RUB 109,670,000.00. The state registration number of the issue is 4-27-65018-D dated June 21, 2012. The interest rate for the eighteenth coupon is 4.0% per annum, the coupon yield being RUB 9.97 per bond.

On February 5, 2018, the Company paid out the eighteenth coupon under Series 26 bonds for a total of RUB 149,550,000.00. The state registration number of the issue is 4-26-65018-D dated June 21, 2012. The interest rate for the eighteenth coupon is 4.0% per annum, the coupon yield being RUB 9.97 per bond.

Chairman of the Management Board

A.E. Murov

Chief Accountant

A.P. Noskov

February 20, 2018