

PJSC “IDGC of Centre”

**Interim Condensed Consolidated
Financial Statements
for the three months ended 31 March 2017
(unaudited)**

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PJSC "IDGC of Centre"**Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2017 (unaudited)**

Thousands of Russian Roubles, unless otherwise stated

	Note	Three months ended 31 March 2017	Three months ended 31 March 2016
Revenue	6	24,297,765	22,282,398
Operating expenses	7	(20,249,055)	(19,824,433)
Other income	6	145,306	162,068
Results from operating activities		4,194,016	2,620,033
Finance income	8	167,248	106,056
Finance costs	8	(1,117,459)	(1,234,394)
Net finance costs		(950,211)	(1,128,338)
Profit before income tax		3,243,805	1,491,695
Income tax benefit / (expense)		(790,620)	791,619
Profit for the period		2,453,185	2,283,314
Other comprehensive income / (expenses)			
Net change in fair value of available-for-sale financial assets		(12,650)	(38,627)
Income tax on other comprehensive income		2,530	7,725
<i>Total items that are or may be reclassified to profit or loss</i>		(10,120)	(30,902)
Remeasurements of the net defined benefit liability		(47,044)	(109,718)
Income tax on other comprehensive income		3,650	5,326
<i>Total items that will never be reclassified to profit or loss</i>		(43,394)	(104,392)
Other comprehensive (expense) for the period, net of income tax		(53,514)	(135,294)
Total comprehensive income for the period		2,399,671	2,148,020
Profit attributable to:			
Owners of the Company		2,436,648	2,270,056
Non-controlling interests		16,537	13,258
		2,453,185	2,283,314
Total comprehensive income attributable to:			
Owners of the Company		2,383,134	2,134,762
Non-controlling interests		16,537	13,258
		2,399,671	2,148,020
Earnings per share – basic and diluted (in Russian Roubles)	13	0.058	0.054

These interim condensed consolidated financial statements were approved on 5 June 2017:



General Director

O.V. Isaev

Chief Accountant

L.A. Sklyarova

PJSC "IDGC of Centre"**Interim Condensed Consolidated Statement of Financial Position as at 31 March 2017 (unaudited)**

Thousands of Russian Roubles, unless otherwise stated

	Note	31 March 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	10	82,948,231	83,790,818
Intangible assets	11	2,306,340	2,345,282
Investments and financial assets		746,466	713,486
Other non-current assets		160,204	166,251
Total non-current assets		86,161,241	87,015,837
Current assets			
Cash and cash equivalents	9	8,126,955	2,567,305
Trade and other receivables		11,881,009	13,977,188
Income tax prepayment		528,309	1,382,137
Inventories		2,907,217	2,099,699
Total current assets		23,443,490	20,026,329
Total assets		109,604,731	107,042,166
EQUITY AND LIABILITIES			
Equity			
Share capital	12	4,221,794	4,221,794
Reserves		(135,292)	(81,778)
Retained earnings		41,384,553	38,947,905
Total equity attributable to equity holders of the Company		45,471,055	43,087,921
Non-controlling interests		182,346	165,809
Total equity		45,653,401	43,253,730
Non-current liabilities			
Loans and borrowings	14	39,283,977	39,282,692
Employee benefits		2,253,849	2,202,613
Deferred tax liabilities		4,551,104	4,420,822
Trade and other payables		855,072	1,035,516
Total non-current liabilities		46,944,002	46,941,643
Current liabilities			
Loans and borrowings	14	4,314,806	3,995,795
Trade and other payables		7,607,952	8,174,734
Provisions		658,673	1,026,203
Employee payables		1,735,532	1,431,899
Income tax payable		84,819	2,438
Other taxes payable		2,605,546	2,215,724
Total current liabilities		17,007,328	16,846,793
Total liabilities		63,951,330	63,788,436
Total equity and liabilities		109,604,731	107,042,166

PJSC “IDGC of Centre”
Interim Condensed Consolidated Statement of Changes in Equity for the three months ended 31 March 2017 (unaudited)
Thousands of Russian Roubles, unless otherwise stated

	Attributable to shareholders of the Company					
	Share capital	Fair value reserve for available-for-sale financial assets	Reserve for remeasurements of defined benefit plans	Retained earnings	Total	Total equity
Balance at 1 January 2016	4,221,794	106,531	(241,442)	34,672,186	38,759,069	38,886,343
Profit for the period	-	-	-	2,270,056	2,270,056	2,283,314
Net change in fair value of available-for-sale financial assets	-	(38,627)	-	-	(38,627)	(38,627)
Remeasurements of the net defined benefit liability	-	-	(109,718)	-	(109,718)	(109,718)
Income tax on other comprehensive income	-	7,725	5,326	-	13,051	13,051
Total comprehensive (expense)/income for the period	-	(30,902)	(104,392)	2,270,056	2,134,762	2,148,020
Balance at 31 March 2016	4,221,794	75,629	(345,834)	36,942,242	40,893,831	41,034,363
Balance at 1 January 2017	4,221,794	90,608	(172,386)	38,947,995	43,087,921	43,253,730
Profit for the period	-	-	-	2,436,648	2,436,648	2,453,185
Net change in fair value of available-for-sale financial assets	-	(12,650)	-	-	(12,650)	(12,650)
Remeasurements of the net defined benefit liability	-	-	(47,044)	-	(47,044)	(47,044)
Income tax on other comprehensive income	-	2,530	3,650	-	6,180	6,180
Total comprehensive (expense)/income for the period	-	(10,120)	(43,394)	2,436,648	2,383,134	2,399,671
Balance at 31 March 2017	4,221,794	80,488	(215,780)	41,384,553	45,471,055	45,653,401

PJSC “IDGC of Centre”

Interim Condensed Consolidated Statement of Cash Flows for the three months ended 31 March 2017

(unaudited)

Thousands of Russian Roubles, unless otherwise stated

	Note	Three months ended 31 March 2017	Three months ended 31 March 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		3,243,805	1,491,695
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment and amortization of intangible assets	7	2,366,794	2,117,444
Allowance for impairment of accounts receivable	7	152,437	282,874
Net finance costs	8	950,211	1,128,338
Provision for inventory obsolescence		(1,568)	-
Loss on disposal of property, plant and equipment and intangible assets		(290)	5,455
Bad debts written-off		12,166	8,391
Adjustment for other non-cash transactions		47,136	27,456
Cash flows from operating activities before changes in working capital		6,770,691	5,061,653
Change in trade and other receivables		1,919,637	1,116,934
Change in inventories		(805,497)	(618,809)
Change in investments, financial assets and other non-current and current assets		(45,630)	(44,070)
Change in trade and other payables		501,906	(439,484)
Change in employee payables		45,598	652,332
Change in employee benefits		(41,300)	(18,334)
Change in other liabilities		(109,495)	462,247
Change in other taxes payable		389,822	641,562
Cash flows from operations before income taxes and interest paid		8,625,732	6,814,031
Interest paid		(782,360)	(777,911)
Income tax paid		282,051	83,035
Cash flows from operating activities		8,125,423	6,119,155
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(2,688,739)	(1,531,843)
Proceeds from disposal of property, plant and equipment and intangible assets		170	1,003
Dividends received		7,300	-
Interest received		120,306	78,829
Cash flows used in investing activities		(2,560,963)	(1,452,011)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		3,900,000	12,434
Repayment of loans and borrowings		(3,904,680)	(12,434)
Dividends paid		(130)	(326)
Repayment of finance lease liabilities		-	(609)
Cash flows from financing activities		(4,810)	(935)
Net increase in cash and cash equivalents		5,559,650	4,666,209
Cash and cash equivalents at beginning of the period		2,567,305	123,220
Cash and cash equivalents at end of the period		8,126,955	4,789,429

1 BACKGROUND

(a) The Group and its operations

Public Joint-Stock Company "IDGC of Centre" (hereafter, the "Company") and its subsidiaries (hereinafter together referred to as the "Group") comprise Russian public and joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 17 December 2004 based on Resolution no. 154p of 9 December 2004 and pursuant to the Board of Directors' decision (board of directors' meeting minutes no. 178 of 1 October 2004) and Management Board decision (Management Board minute no. 1102 of 15 November 2004) of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES"). From 7 July 2015, OJSC "IDGC of Center" is renamed as PJSC "IDGC of Center" based on the Decision of the Annual General Meeting of Shareholders of OJSC "IDGC of Center" dated 25.06.2015 (Minutes №01/15 of 26.06.2015), in order to bring it in line with the legal requirements.

The Company's registered office is 2nd, Yamskaya, 4, Moscow, 127018, Russia.

The Company's de facto address is 2nd, Yamskaya, 4, Moscow, 127018, Russia.

The Group's principal activity is the transmission of electricity and the connection of customers to the electricity grid. In 2013 and 2014 pursuant to orders of the Russian Ministry of Energy, "On the transfer of the functions of electricity supplier" the Group was performing the functions of electricity guarantee supplier in several regions it operates. In 2016, the Group took over the functions of electricity guarantee supplier in the Tver Region again.

The Group consists of PJSC "IDGC of Centre" and its subsidiaries, presented in Note 4.

As at 31 March 2017 and 31 December 2016, the Government of the Russian Federation owned 87.90% of the shares of PJSC Russian Grids (formerly OJSC "IDGC Holding"), which in turn owned 50.23% of the shares of the Company. OJSC "IDGC Holding" was renamed OJSC "Russian Grids" following the decision made on 23 March 2013 at an Extraordinary General Meeting of Shareholders of OJSC IDGC Holding. OJSC "Russian Grids" was renamed PJSC "Russian Grids" following the decision made on 30 June 2015 at an Extraordinary General Meeting of Shareholders of OJSC "Russian Grids", in order to bring it in line with the legal requirements.

The Government of the Russian Federation influences the Group's activities through setting electricity transmission tariffs.

(b) Russian business environment

The Group's operations are located in the Russian Federation, consequently, the Group is exposed to the economic and financial markets of the Russian Federation. Russia continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2014 and 2015, the Russian economy was negatively impacted by macroeconomic factors, including devaluation of the Russian Rouble. In December 2014, the Rouble interest rates increased significantly after the Central Bank of Russia raised its key rate. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. In 2015, the situation has leveled off. The Central Bank of Russia has repeatedly reduced the key interest rate; exchange rate fluctuations and inflation have been smoothed. In 2016 and during three months ended 31 March 2017, there were signs of stabilization, the Central Bank of Russia continued to reduce the key interest rate, there were no significant exchange rate fluctuations, inflation is controlled by the government. However, risks remain that the combination of economic factors could negatively affect the Group's future financial position, results of operations and business prospects.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

These interim condensed consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 BASIS OF PREPARATION**(a) Statement of compliance**

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The Financial Statements include selected notes, explaining significant events and transactions, necessary for understanding of changes in the Group's financial position and results of operations that occurred after the annual reporting period ended 31 December 2016. These interim condensed consolidated financial statements do not contain all the information required to be disclosed for annual financial statements prepared in accordance with IFRSs (IASs).

(b) Use of estimates and judgements

The preparation of interim condensed consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

In preparing these interim condensed consolidated financial statements, management has used professional judgment in the same areas of applying the accounting policies of the Group as for the preparation of the consolidated financial statements for 2016. Key sources of estimation uncertainty were also identical to those identified in the preparation of the consolidated financial statements for 2016.

(c) Changes in accounting policies and data presentation

The Group has consistently applied the accounting policies to all periods presented in these interim condensed consolidated financial statements. When necessary, comparative information for prior periods has been reclassified due to the application of the extended data presentation.

3 SIGNIFICANT ACCOUNTING POLICIES

In preparing these interim condensed consolidated financial statements, the Group applied the same accounting policies as for the preparation of consolidated financial statements for the year ended 31 December 2016. According to the accounting policies, the Group presents interim condensed consolidated financial statements in accordance with IAS 34 *Interim Financial Reporting*, which provides a lower level of detail and scope of the disclosure as compared with the annual consolidated financial statements.

4 SUBSIDIARIES**(a) List of subsidiaries**

	Country of incorporation	31 March 2017 Ownership/voting, %	31 December 2016 Ownership/voting, %
JSC "Sanatorium "Energetic"	Russian Federation	100	100
JCS "Yaroslavl Electric Grid Company"	Russian Federation	51	51
CJSC "Innovation and energy efficiency center"	Russian Federation	51	51

JCS "Yaroslavl Electric Grid Company" as the sole shareholder of CJSC "Innovation and energy efficiency center" took the decision to liquidate CJSC "Innovation and energy efficiency center" on a voluntary basis (Management Board minute no. 03/17 of 24 March 2017). The liquidation is scheduled for the third quarter of 2017. As at 31 March 2017: the company's assets are RUB 20 thousand, equity is RUB (74) thousand, liabilities are RUB 94 thousand.

5 OPERATING SEGMENTS

The Group has eleven reportable segments representing branches of the Company, as described below. These are the Group’s strategic business units and are the Company’s branches. The strategic business units offer similar services representing transmission of electric power and connection services and are managed separately. In addition, in 2013 and 2014 five divisions (Bryanskenergo, Kurskenergo, Oryolenergo, Tverenergo and Smolenskenergo) were performing electricity guarantee supplier functions. In 2016, the division of Company Tverenergo performs the electricity guarantee supplier functions again. For each of the strategic business units, the Management Board, the Group’s operating decision-making body, reviews internal management reports on at least a quarterly basis.

“Others” include operations of subsidiaries and the head office branch. None of them meets any of the quantitative thresholds for determining reportable segments in the three months ended 31 March 2017 or three months ended 31 March 2016.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment earnings before interest expense, income tax and depreciation and amortisation – EBITDA, as included in the internal management reports that are reviewed by the Management Board.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the interim condensed consolidated financial statements prepared under IFRSs. The reconciliation of items measured as reported to the Management Board with similar items in these interim condensed consolidated financial statements includes those reclassifications and adjustments that are necessary for interim condensed consolidated financial statements to be presented in accordance with IFRS.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

PJSC "IDGC of Centre"
Notes to the Interim Condensed Consolidated Financial Statements for the three months ended 31 March 2017 (unaudited)
Thousands of Russian Roubles, unless otherwise stated

5 OPERATING SEGMENTS (CONTINUED)

(i) Information about reportable segments

As at and for the three months ended 31 March 2017:

	Belgorod- energo	Bryansk- energo	Voronezh- energo	Kostroma- energo	Kurskenergo	Lipetsk- energo	Oryolenergo	Smolensk- energo	Tambov- energo	Tverenergo	Yarenergo	Others	Total
Revenue from electricity transmission	3,664,596	1,296,327	3,393,846	1,292,879	1,835,297	2,427,617	1,131,008	1,887,642	1,492,413	2,689,653	2,473,790	-	23,585,068
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	103,903	103,903
Revenue from connection services	85,210	2,051	16,080	22,682	14,202	14,099	3,764	24,476	107,552	4,609	20,633	44	315,402
Revenue from the resale of electricity and capacity	-	-	-	-	-	-	-	-	-	159,365	-	-	159,365
Other revenue	80,555	6,420	34,722	12,194	8,820	7,660	8,522	25,087	7,765	9,105	28,678	7,240	236,768
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	507	1,997	2,504
Reportable segment total revenues	3,830,361	1,304,798	3,444,648	1,327,755	1,858,319	2,449,376	1,143,294	1,937,205	1,607,730	2,862,732	2,523,608	113,184	24,403,010
Reportable segment results from operating activities *	659,056	222,344	540,765	251,096	98,539	110,692	139,393	318,945	437,563	508,962	460,531	43,854	3,791,740
Finance income	10,933	10,931	10,925	10,925	10,925	10,935	10,925	10,925	10,926	10,925	10,934	245	120,454
Finance costs	(138,074)	(41,480)	(84,411)	(34,599)	(60,816)	(86,343)	(51,231)	(143,400)	(103,886)	(211,203)	(113,324)	(388)	(1,069,155)
Reportable segment profit before income tax	531,915	191,795	467,279	227,422	48,648	35,284	99,087	186,470	344,603	308,684	358,141	43,711	2,843,039
Depreciation and amortisation	675,543	112,429	274,474	149,333	194,849	308,965	92,273	241,019	119,985	194,752	294,140	9,129	2,666,891
EBITDA	1,345,532	345,704	826,164	411,354	304,313	430,592	242,591	570,889	568,474	714,639	765,605	53,228	6,579,085
Reportable segment assets	25,870,975	5,140,015	12,540,750	6,155,739	7,631,244	16,267,836	3,920,418	7,751,213	5,912,309	11,601,483	12,958,411	9,462,137	125,212,530
Property, plant and equipment	23,526,020	4,195,688	10,832,364	5,560,719	6,504,935	13,835,711	3,372,215	6,523,385	4,026,723	8,248,536	10,575,975	324,935	97,527,206
Reportable segment liabilities	3,424,071	889,166	2,095,743	958,985	1,303,618	1,605,933	654,737	1,189,246	880,351	2,716,672	1,950,156	47,380,839	65,049,517
Capital expenditure	263,605	47,201	191,355	121,064	63,377	152,056	48,548	154,511	137,141	70,649	174,834	5,179	1,429,520

* Results from operating activities include other income and expense of reportable segment

PJSC "IDGC of Centre"
Notes to the Interim Condensed Consolidated Financial Statements for the three months ended 31 March 2017 (unaudited)
Thousands of Russian Roubles, unless otherwise stated

5 OPERATING SEGMENTS (CONTINUED)

As at and for the three months ended 31 March 2016:

	Belgorod- energo	Bryansk- energo	Voronezh- energo	Kostroma- energo	Kurskenergo	Lipetskenergo	Oryolenergo	Smolensk- energo	Tambov- energo	Tverenergo	Varenergo	Others	Total
Revenue from electricity transmission	3,312,058	1,192,683	3,067,907	1,173,930	1,726,193	2,335,286	1,054,965	1,759,156	1,382,789	2,495,697	2,237,932	-	21,738,596
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	89,039	89,039
Revenue from connection services	33,608	954	8,123	13,668	7,563	12,987	549	16,272	7,335	14,847	71,822	1,334	189,062
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	19	-	19
Other revenue	73,233	7,669	20,517	10,856	11,143	10,443	7,173	33,140	6,896	10,688	29,168	9,043	229,969
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	451	1,018	1,469
Reportable segment total revenues	3,418,899	1,201,306	3,096,547	1,198,454	1,744,899	2,358,716	1,062,687	1,808,568	1,397,020	2,521,232	2,339,392	100,434	22,248,154
Reportable segment results from operating activities*	342,059	190,818	233,271	222,283	48,058	65,369	78,528	278,473	227,223	111,031	332,288	35,511	2,164,911
Finance income	16,274	5,356	10,855	3,363	7,547	9,418	2,943	4,736	3,913	6,138	8,252	183	78,978
Finance costs	(162,702)	(54,649)	(106,418)	(44,875)	(59,402)	(76,724)	(55,375)	(152,294)	(108,462)	(245,218)	(112,443)	(179)	(1,178,741)
Reportable segment profit/(loss) before income tax	195,631	141,525	137,708	180,770	(3,797)	(1,937)	26,096	130,915	122,674	(128,049)	228,097	35,515	1,065,148
Depreciation and amortisation	621,919	109,174	235,421	135,178	191,741	287,116	89,801	220,003	105,286	183,372	240,738	6,954	2,426,703
EBITDA	980,252	305,348	479,547	360,823	247,346	361,903	171,272	503,212	336,422	300,541	581,278	42,648	4,670,592
Reportable segment assets	24,945,677	5,866,871	12,076,041	5,795,016	7,971,797	15,710,596	3,975,810	8,278,062	5,923,635	12,844,980	12,136,439	5,944,173	121,467,097
Property, plant and equipment	22,615,180	4,121,976	10,394,654	5,052,211	6,700,469	13,206,059	3,275,791	6,457,111	4,906,762	8,301,873	9,251,015	269,124	94,552,225
Reportable segment liabilities	3,412,767	886,265	1,933,122	724,518	1,125,368	1,478,647	633,746	1,412,904	908,350	3,595,636	1,633,403	46,167,524	63,912,250
Capital expenditure	379,985	16,602	91,317	64,594	59,289	63,334	28,926	295,720	165,904	59,122	68,489	28,563	1,321,845

* Results from operating activities include other income and expense of reportable segment

PJSC "IDGC of Centre"

Notes to the Interim Condensed Consolidated Financial Statements for the three months ended 31 March 2017

(unaudited)

Thousands of Russian Roubles, unless otherwise stated

5 OPERATING SEGMENTS (CONTINUED)

(ii) Reconciliations of reportable segment EBITDA

Reconciliation of EBITDA as reported to the Management Board with similar item in these interim condensed consolidated financial statements is presented below:

	Three months ended 31 March 2017	Three months ended 31 March 2016
EBITDA for the reportable segments	6,579,085	4,670,592
Adjustments for property, plant and equipment	157	69
Recognition of assets related to employee benefit fund	45,630	44,070
Recognition of employee benefit obligations	(4,192)	(36,389)
Adjustment for finance lease	-	705
Provision for inventory obsolescence	1,654	217
Amortization of Intangible assets	83,606	62,005
Other adjustments	(26,334)	46,536
Consolidated earnings before interest, tax and depreciation and amortization (EBITDA)	6,679,606	4,787,805
Depreciation and amortization	(2,366,794)	(2,117,444)
Interest expenses	(1,069,007)	(1,178,592)
Interest on finance lease liabilities	-	(74)
Income tax expense	(790,620)	791,619
Profit for the period per Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	2,453,185	2,283,314

6 REVENUE AND OTHER INCOME

For the three months ended 31 March, revenue includes:

	Three months ended 31 March 2017	Three months ended 31 March 2016
Electricity transmission	23,585,068	21,738,596
Connection services	315,402	189,062
Revenue from the resale of electricity and capacity	159,365	-
Repairs and maintenance	72,995	85,541
Rent	10,782	11,852
Service Concession Arrangements	-	123,889
Other	154,153	133,458
	24,297,765	22,282,398

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network.

6 REVENUE AND OTHER INCOME (CONTINUED)

In 2013 pursuant to orders of the Russian Ministry of Energy, "On the transfer of the functions of electricity supplier" the Company started to perform the functions of electricity guarantee supplier in Bryansk, Oryol, Kursk, Tver and Smolensk regions. In 2016, the Company started to perform the functions of electricity guarantee supplier in the Tver Region again. Hence, in addition to performing power transmission services, Tverenergo division of the Company commenced performing power distribution services, including purchasing electricity on the wholesale market and selling it on the retail market, and entering into power purchase agreements with all customers, including householders. The period within which the functions of electricity guarantee supplier are to be performed was established prior to the effective date of the decision to provide the tender winner with the electricity guarantee supplier status in the abovementioned operating area of the Company, but not more than 12 months.

In three months 2017, revenue from the resale of electricity and capacity was RUB 159,365 thousand (there was no revenue from the resale of electricity and capacity in three months 2016). Tariff for sale of electricity under power supply contracts is calculated taking into account the transmission fee.

Revenue under the Service Concession Arrangement is the consideration for the services related to the construction of objects of the Service Concession Arrangement, subject to receipt by the Group, and represented the rights to the intangible asset. The consideration payable is recognised at its fair value.

For the three months ended 31 March, other income includes:

	Three months ended 31 March 2017	Three months ended 31 March 2016
Income in the form of fines and penalties	74,580	65,225
Write-off of accounts payable	23,286	11,898
Income from the identified non-contractual electricity consumption	21,805	19,199
Income from reimbursement of costs and damages	7,644	42,243
Compensation of insurance claims	5,313	9,599
Income in the form of the cost of inventories obtained by disposal of property, plant and equipment	5,240	11,903
Other income	7,438	2,001
	145,306	162,068

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7 OPERATING EXPENSES

	Three months ended 31 March 2017	Three months ended 31 March 2016
Personnel costs	4,581,590	4,590,623
Depreciation and amortisation	2,366,794	2,117,444
Taxes other than income tax	403,636	334,759
Allowance for impairment of accounts receivable	152,437	282,874
<i>Material expenses, inc.</i>		
Electricity to compensate for losses	3,881,465	3,899,046
Purchased electricity and heat energy for own needs	154,627	160,557
Electricity for resale	82,981	-
Other raw material expenses	440,245	421,691
<i>Works and production services, inc.</i>		
Electricity transmission	7,377,236	6,895,270
Repairs, maintenance and installation services	63,746	53,988
Other works and production services	12,889	15,195
<i>Other services of outside organizations, inc.</i>		
Security	74,412	75,412
Information services	70,270	71,704
Communication services	61,409	67,318
Consulting, legal and audit services	7,279	7,849
Transportation services	3,639	3,410
Other services	153,159	117,234
Costs of Service Concession Arrangements	-	111,612
Rent	120,254	141,542
Insurance	36,471	36,138
Provisions recognized	(46,049)	216,052
Other expenses	250,565	204,715
	20,249,055	19,824,433

Allowance for impairment of accounts receivable recognized in the reporting period relates to impairment of trade receivables from the companies with which there is disagreement on electricity transmission, as well as companies with outstanding resale of electricity and capacity.

Costs under Service Concession Arrangements represent the Group's construction costs of objects of the Service Concession Arrangement.

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8 FINANCE INCOME AND COSTS

	Three months ended 31 March 2017	Three months ended 31 March 2016
Finance income		
Interest income	155,189	106,056
Dividends	7,300	-
Other finance income	4,759	-
	167,248	106,056
Finance costs		
Interest expense	1,069,007	1,178,592
Interest expense on employee benefits obligation	45,492	54,723
Interest on finance lease liabilities	-	74
Other finance costs	2,960	1,005
	1,117,459	1,234,394

9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash in bank accounts in the amount of RUB 79,955 thousand (as at 31 December 2016: RUB 222,228 thousand) and short-term deposits placed in banks in the amount of RUB 8,047,000 thousand (as at 31 December 2016: RUB 2,319,500 thousand). The interest rates on short-term deposits are 7.50%-9.60% per annum in three months 2017 (6.50%-10.86% per annum in 2016).

As at 31 March 2017 cash on accounts in banks with controlling interest of the Government is in the amount of RUB 39,731 thousand (as at 31 December 2016: RUB 213,286 thousand), in banks with non-controlling interests or without participation of the Government RUB 40,224 thousand (2016: RUB 14,493 thousand).

As at 31 March 2017 short-term deposits placed in banks with controlling interest of the Government, are in the amount of RUB 8,047,000 thousand (as at 31 December 2016: 1,180,000), in banks with non-controlling interests or without participation of the Government RUB nil (2016: RUB 1,139,500 thousand).

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10 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transmission networks	Equipment for electricity transformation	Other	Construction in progress	Total
<i>Deemed cost</i>						
Balance at 1 January 2016	31,589,384	54,759,421	31,690,306	16,537,044	3,478,781	138,054,936
Reclassification between groups	2	299	(295)	(6)	-	-
Additions	-	-	-	-	1,341,036	1,341,036
Transfers	186,990	633,418	231,559	115,263	(1,167,230)	-
Disposals	(584)	(3,175)	(6,310)	(10,759)	(9,125)	(29,953)
Balance at 31 March 2016	31,775,792	55,389,963	31,915,260	16,641,542	3,643,462	139,366,019
Balance at 1 January 2017	34,173,604	60,039,279	35,331,460	18,336,210	3,866,317	151,746,870
Reclassification between groups	(2,103)	2,403	(301)	1	-	-
Additions	-	-	-	-	1,429,521	1,429,521
Transfers	135,510	588,153	108,981	90,358	(923,002)	-
Disposals	-	(279)	(1,025)	(1,539)	(84)	(2,927)
Balance at 31 March 2017	34,307,011	60,629,556	35,439,115	18,425,030	4,372,752	153,173,464
<i>Accumulated depreciation</i>						
Balance at 1 January 2016	(10,210,363)	(26,772,578)	(12,340,194)	(10,623,021)	(469,626)	(60,415,782)
Reclassification between groups	(9,304)	(40,716)	(5,091)	(1,349)	56,460	-
Depreciation for the period	(358,539)	(802,855)	(446,869)	(429,534)	-	(2,037,797)
Disposals	278	2,955	3,654	10,629	349	17,865
Balance at 31 March 2016	(10,577,928)	(27,613,194)	(12,788,500)	(11,043,275)	(412,817)	(62,435,714)
Balance at 1 January 2017	(11,596,191)	(29,938,498)	(14,044,233)	(12,191,638)	(185,492)	(67,956,052)
Reclassification between groups	(157)	(133)	(304)	(273)	867	-
Depreciation for the period	(382,994)	(932,367)	(505,916)	(450,498)	-	(2,271,775)
Disposals	-	277	726	1,524	67	2,594
Balance at 31 March 2017	(11,979,342)	(30,870,721)	(14,549,727)	(12,640,885)	(184,558)	(70,225,233)
<i>Net book value</i>						
At 1 January 2016	21,379,021	27,986,843	19,350,112	5,914,023	3,009,155	77,639,154
At 31 March 2016	21,197,864	27,776,769	19,126,760	5,598,267	3,230,645	76,930,305
At 1 January 2017	22,577,413	30,100,781	21,287,227	6,144,572	3,680,825	83,790,818
At 31 March 2017	22,327,669	29,758,835	20,889,388	5,784,145	4,188,194	82,948,231

11 INTANGIBLE ASSETS

	Software	Research and development	Other intangible assets	Total
<i>Cost</i>				
Balance at 1 January 2016	961,152	43,911	1,118,561	2,123,624
Additions	118,647	7,930	123,889	250,466
Disposals	-	-	-	-
Balance at 31 March 2016	1,079,799	51,841	1,242,450	2,374,090
Balance at 1 January 2017	1,465,512	29,947	1,218,251	2,713,710
Reclassification between groups	-	(315)	315	-
Additions	38,191	25,380	-	63,571
Disposals	(17,546)	-	-	(17,546)
Balance at 31 March 2017	1,486,157	55,012	1,218,566	2,759,735
<i>Accumulated amortisation</i>				
Balance at 1 January 2016	(259,418)	-	(66,756)	(326,174)
Amortisation for the period	(62,005)	-	(17,642)	(79,647)
Balance at 31 March 2016	(321,423)	-	(84,398)	(405,821)
Balance at 1 January 2017	(274,588)	-	(93,840)	(368,428)
Amortisation for the period	(83,606)	-	(18,907)	(102,513)
Disposals	17,546	-	-	17,546
Balance at 31 March 2017	(340,648)	-	(112,747)	(453,395)
<i>Net book value</i>				
At 1 January 2016	701,734	43,911	1,051,805	1,797,450
At 31 March 2016	758,376	51,841	1,158,052	1,968,269
At 31 March 2017	1,145,509	55,012	1,105,819	2,306,340

In 2015 and in 2016, the intangible assets of the Group (subgroup "Other intangible assets") include a right to charge fee from users of services on electricity transmission in accordance with "Service Concession Arrangement concerning the financing, establishment and operation of facilities for the transmission and distribution of electric energy on the territory of the Tambov region". This agreement provides for the construction by a Group of objects for the purposes of transmission and distribution of electricity in the Tambov region and the provision of transmission services, electricity distribution and connection services with the use of objects of the Service Concession Arrangement. Ownership of the constructed objects belongs to the Tambov region, and the Group receives the right of possession and use of objects for the Group activities. The Service Concession Arrangement is concluded for 20 years.

The calculation of long-term gross revenue from transmission of electricity produced by the parties taking into account the planned change of tariffs provided by the Forecast "The socio-economic development of the Russian Federation for 2016 and the planning period of 2017-2018" and should be reviewed annually. Thus during the term of the Service Concession Arrangement the administration of Tambov region can provide the Group with subsidies in terms of payment of the consideration for construction of objects, and in part compensation for lost revenue from electricity transmission. The group is obliged to support the objects of the agreement in good condition, produce for own account current and capital repairs, to cover the costs for facility maintenance. At the end of the term of the agreement the Group has the right to redeem the objects of the agreement pursuant to the Federal Law of 21 December 2001 № 178-FZ "On privatization of state and municipal property".

11 INTANGIBLE ASSETS (CONTINUED)

In three months 2016, the intangible asset is recognized at fair value of the consideration receivable by the Group for the construction of objects of the Service Concession Arrangement in the amount of RUB 123,889 thousand. The construction costs in three months 2016 amounted to RUB 111,612 thousand. Profit from construction of objects of the Service Concession Arrangement was recognized by the Group in three months 2016 in the amount of RUB 12,277 thousand. Construction of objects for the purposes of transmission and distribution of electricity was completed in three months 2016 so the recognition of intangible assets has also been completed in three months 2016.

12 EQUITY**a. Share capital**

	Ordinary shares	
	31 March 2017	31 December 2016
Issued shares, fully paid, number	42,217,941,468	42,217,941,468
Par value of one share (in RUB)	0.10	0.10

b. Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

13 EARNINGS PER SHARE

The calculation of earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period. The Company has no dilutive potential ordinary shares.

	Three months ended 31 March 2017	Three months ended 31 March 2016
Authorised (ordinary) shares (number)	42,217,941,468	42,217,941,468
Par value of one share (in RUB)	0.10	0.10
Weighted average number of shares	42,217,941,468	42,217,941,468
Profit for the period attributable to shareholders	2,436,648	2,270,056
Earnings per share (in RUB): basic and diluted	0.058	0.054

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14 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group’s loans and borrowings.

Long-term loans and borrowings

Name of lender		Effective interest rate 31 March 2017	Effective interest rate 31 December 2016	Maturity	Par value		Carrying value	
					31 March 2017	31 December 2016	31 March 2017	31 December 2016
PJSC “Bank VTB”	Unsecured	8.75-9.70%	8.75-10.40%	2018-2019	5,620,000	9,260,000	5,620,000	9,260,000
PJSC “Sberbank”	Unsecured	9.65-9.90%	9.90-10.10%	2018-2019	13,696,086	13,696,185	13,696,086	13,696,185
PJSC «Promsvybank»	Unsecured	-	14.55%	2017	-	8,200	-	8,200
PJSC “SGB”	Unsecured	-	13.00%	2017	-	10	-	10
Unsecured bond issues	Unsecured	9.32-12.42%	9.32-12.42%	2018-2020	20,660,300	20,336,400	20,639,277	20,314,092
					39,976,386	43,300,795	39,955,363	43,278,487
Less: current portion								
PJSC “Bank VTB”	Unsecured	8.75-9.70%	8.75-10.40%	2018-2019	-	3,640,000	-	3,640,000
PJSC “Sberbank”	Unsecured	9.65-9.90%	9.90-10.10%	2018-2019	11,086	11,185	11,086	11,185
PJSC «Promsvybank»	Unsecured	-	14.55%	2017	-	8,200	-	8,200
PJSC “SGB”	Unsecured	-	13.00%	2017	-	10	-	10
Unsecured bond issues	Unsecured	9.32-12.42%	9.32-12.42%	2018-2020	660,300	336,400	660,300	336,400
					671,386	3,995,795	671,386	3,995,795
Total long-term borrowings					39,305,000	39,305,000	39,283,977	39,282,692

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14 LOANS AND BORROWINGS (CONTINUED)

Current loans and borrowings and current portion of long-term loans and borrowings

Name of lender	Effective interest rate 31 March 2017	Effective interest rate 31 December 2016	Par value		Carrying value	
			31 March 2017	31 December 2016	31 March 2017	31 December 2016
PJSC "Bank VTB"	8.75-9.70%	8.75-10.40%	3,640,000	3,640,000	3,640,000	3,640,000
PJSC "Sberbank"	9.65-9.90%	9.90-10.10%	11,086	11,185	11,086	11,185
PJSC «Promsvyasbank»	-	14.55%	3,420	8,200	3,420	8,200
PJSC "SGB"	-	13.00%	-	10	-	10
Unsecured bond issues	9.32-12.42%	9.32-12.42%	660,300	336,400	660,300	336,400
			4,314,806	3,995,795	4,314,806	3,995,795

All the Group's loans and borrowings are denominated in RUB and bear a fixed interest rate. The effective interest rate is the market interest rate applicable to the loan on the date of its receipt.

The carrying value of loans and borrowings approximates their fair value.

As at 31 March 2017 and 31 December 2016 no bank loans are secured over bank guarantees received.

During 2015, the Group made three issues of non-convertible documentary interest - bearing bonds with a total nominal value of RUB 15,000,000 thousand with a nominal interest rate of 11.58-12.42% per annum. The maturity of the bonds is 3-7 years. Two issues of the interest - bearing bonds have been purchased by PJSC "Russian Grids". During 2016, the Group made the issue of non-convertible documentary interest - bearing bonds with a nominal value of RUB 5,000,000 thousand with a nominal interest rate of 9.32% per annum. The maturity of the bonds is 10 years. The issue of the interest - bearing bonds have been purchased by PJSC "Russian Grids" (Note 18d).

15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Objectives and policies of the Group in respect of the financial risk management are consistent with those that were disclosed in the consolidated financial statements for the year ended 31 December 2016.

As at 31 March 2017, the fair value of the Group’s financial assets and liabilities approximates their carrying amounts.

As at 31 March 2017, the Group’s unused portion of long-term and short-term credit line facilities amounted to RUB 26,928,798 thousand (as at 31 December 2016: RUB 18,915,779 thousand). Among them, credit line facilities related to the banks with controlling interest of the Government amounted to RUB 14,316,298 thousand (as at 31 December 2016: RUB 8,815,779 thousand).

16 COMMITMENTS

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 5,631,155 thousand as at 31 March 2017 (as at 31 December 2016: RUB 4,766,748 thousand).

17 CONTINGENCIES

a. Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has reliable insurance coverage for its property: industrial buildings, structures and premises, air and cable transmission lines, energy (power) machines and others. In addition, insurance covers risks that could lead to losses in the event of damage to third parties (health, property) arising from operation of dangerous production units. The Group has no insurance coverage against losses caused by business interruption

b. Litigation

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

c. Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these Financial Statements could be significant, if the authorities were successful in enforcing their interpretations.

d. Environmental matters

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

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17 CONTINGENCIES (CONTINUED)

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

e. Other contingencies

The Group believes that the electricity services provided are in compliance with the Russian legislation regulating electric power transmission. Other contingencies to disclose as at 31 March 2017 and 31 March 2016 are absent.

f. Guarantees

As at 31 March 2017 and 31 December 2016, the Group has no issued financial guarantees for loans and borrowings.

18 RELATED PARTY TRANSACTIONS

a. Control relationships

The Company’s parent as at 31 March 2017 and 31 December 2016 was PJSC “Russian Grids”. The party with the ultimate control over the Company is the Government of the Russian Federation, which held the majority of the voting rights of PJSC “Russian Grids”. The economic, social and other policies of the Government of the Russian Federation could have a significant impact on the Group's activities.

b. Transactions with parent company and other related parties

	Transaction value for the three months ended		Balance	
	31 March 2017	31 March 2016	As at 31 March 2017	As at 31 December 2016
Sale of goods and services:	1,316	19	853	21,567
Parent company	-	-	77	-
Fellow subsidiaries	1,316	19	776	21,567
Purchase of goods and services:	4,380,638	3,961,393	1,382,239	1,232,264
Parent company	96,161	96,161	45,311	22,617
Fellow subsidiaries	4,284,477	3,865,232	1,336,928	1,209,647
Advances given:	-	-	44,986	30,335
Fellow subsidiaries	-	-	44,986	30,335
Advances received:	-	-	173,413	173,440
Fellow subsidiaries	-	-	173,413	173,440

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18 RELATED PARTY TRANSACTIONS (CONTINUED)

c. Management compensation

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

Total remuneration paid to key management, Board of Directors and Management Board members for the three months ended 31 March 2017 and for the three months ended 31 March 2016 and included into personnel costs was:

	<u>Three months ended 31 March 2017</u>	<u>Three months ended 31 March 2016</u>
Salary and bonuses	<u>32,295</u>	<u>42,136</u>

The amount of commitments to key management personnel included in employee benefit obligations was as follows:

	<u>31 March 2016</u>	<u>31 December 2016</u>
Present value of defined benefit and defined contribution plans, as well as other payments for post-employment benefits	<u>4,770</u>	<u>4,541</u>

d. Transactions with government-related entities

The Group applies the exemption in IAS 24 Related Party Disclosures that allows to present reduced related party disclosures regarding transactions with government-related entities.

In the course of business, the Group makes a significant number of transactions with companies that are government-related. These operations are carried out under the regulated tariffs, or in accordance with market prices.

Revenue from government-related entities accounts for 40% of the Group’s total revenue for the three months ended 31 March 2017, (for the three months ended 31 March 2016: 40%) including 41% of the proceeds from the transmission of electricity for the three months ended 31 March 2017 (for the three months ended 31 March 2016: 40%).

Costs of electricity transmission for government-related entities account for 62% of the total costs of the electricity transmission for the three months ended 31 March 2017 (for the three months ended 31 March 2016: 60%).

Interest income for government-related entities accounts for 71% of the total interest income for the three months ended 31 March 2017 (for the three months ended 31 March 2016: 73%).

Interest expenses for government-related entities account for 51% of the total interest expenses for the three months ended 31 March 2017 (for the three months ended 31 March 2016: 57%).

During 2015, the Group made three issues of non-convertible documentary interest - bearing bonds with a total nominal value of RUB 15,000,000 thousand with a nominal interest rate of 11.58-12.42% per annum. The maturity of the bonds is 3-7 years. Two issues of the interest - bearing bonds with a total nominal value of RUB 10,000,000 thousand with a nominal interest rate of 11.58-12.42% per annum have been fully purchased by PJSC “Russian Grids”. During 2016, the Group made the issue of non-convertible documentary interest - bearing bonds with a nominal value of RUB 5,000,000 thousand with a nominal interest rate of 9.32% per annum. The maturity of the bonds is 10 years. The issue of the interest - bearing bonds have been purchased by PJSC “Russian Grids”.

e. Pricing policy

Transactions with related parties for the transmission of electricity are carried out at the tariffs set by the state.