



Annual Report
Public Joint-Stock Company
"Federal Grid Company
of Unified Energy System"

2016



The Annual Report was approved by the Annual
General Meeting of Shareholders on 29 June 2016
(Minutes No.18 of 03.07. 2017)
preliminarily approved by the Board of Directors of
Federal Grid Company as of 29.05.2017
(Minutes No.367 of 29.05. 2017)



Chairman of the Management Board
of Federal Grid Company A. Murov

Annual Report
Public Joint-Stock Company
“Federal Grid Company
of Unified Energy System”

**15 YEARS
TOGETHER WITH RUSSIA**

2016

Public Joint Stock Company Federal Grid Company of Unified Energy System is a unique infrastructure company that provides reliable and uninterrupted electricity transmission via backbone electric grids in the Russian Federation. Management of the Unified National (all-Russian) Electric Grid (UNEG) is our key area of focus.

About the Report

The Annual Report highlights the successful operations of FGC UES over the course of fifteen years, contributing both to the Company's standing and to the domestic economy in general. The development of backbone electric grids has reflected the needs of the Russian economy and the Company's customers. By providing electricity transmission services via backbone grids to 77 regions in Russia, the Company creates opportunities for economic growth and offers solutions for major social and economic challenges.

The individual parts of the Annual Report cover systemically significant projects that have been implemented by the Company over the years, such as:

- Improving the reliability of electricity supply to the regions,
- Participating in the implementation of power

generation schemes for nuclear, heat and hydroelectric power plants,

- Technological connection of major enterprises of leading industries: oil and gas fields, mining and processing enterprises, iron and steel plants, mechanic engineering facilities, airports, large agricultural enterprises and others.

The Annual Report includes the Company's data, open-source information and data from a stakeholder survey (questionnaire) conducted by the Company.

In the text of this Annual Report, the Public Joint Stock Company Federal Grid Company of Unified Energy System is also referred to as: PJSC FGC UES, JSC FGC UES (the former name used before 07 July 2015), FGC, FGC UES, Federal Grid Company, Federal Grid Company of Unified Energy System or the Company.

Strategic Priorities



Reliability

Reliability of electricity supply to our consumers.



UNEG development

Development and functionality of the Unified National (all-Russian) Electric Grid adequate to the needs of the national economy and its citizens.



Economic efficiency

Economic efficiency and financial sustainability

Corporate Website:
www.fsk-ees.ru/eng/



Interactive Version



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Appendices are available in electronic format and on our corporate website at www.fsk-ees.ru/eng/

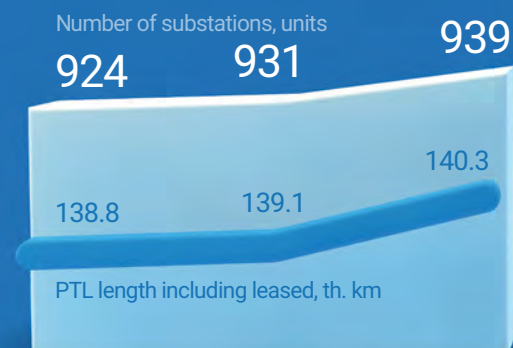
Strategic Report

Who We Are and What We Do

Federal Grid Company is a Russian energy company that provides electricity transmission services through the Unified National Electric Grid. The Company is a natural monopolist in the sector.

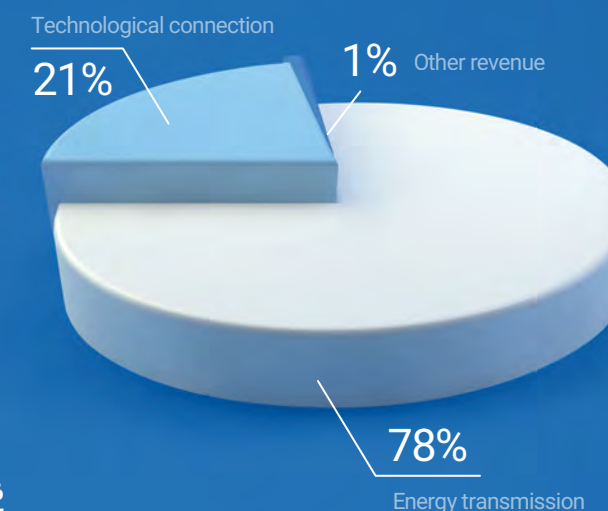
The Company is included in a list of systemically important organisations of strategic importance to Russia.

Assets under our management



Assets according to the production annual report	2014	2015	2016
35–1,150 kV substations, pc.	857	861	870
Length of 0.4-1,150 kV power transmission lines along the route, thousand km	131.5	133.1	134.0

FGC revenue structure in 2016



The operations of FGC UES

The operations of Federal Grid Company are characterised as a low-risk business, steadily developing due to the consistent implementation of strategic priorities, effective management and professional work of its employees.



Key operations

- managing the Unified National Electric Grid;
- providing electricity transmission and technological connection services to Wholesale Electricity and Capacity Market participants;
- investing activities in the area of UNEG development.



We provide:

- electricity transmission via backbone grids to 77 regions in Russia, addressing most the important issues of social and economic development of our country;
- transiting electricity over the borders of 11 foreign states, collecting and processing information on electricity transmission via 134 cross-border electricity transmission lines.



The bulk of our revenue

The bulk of our revenue is generated through tariffs for electricity transmission approved by the Federal Anti-Monopoly Service.

Regional distribution companies, retail suppliers and major industrial enterprises are among our largest consumers.



Assets under our management:



Who We Work For

The scope of the Company's operations requires us to meet the interests and expectations of a wide range of stakeholders:

We satisfy the demand for electricity transmission and technological connection, ensuring the reliability and quality of service as well as providing technological infrastructure of the wholesale electricity and capacity market

Consumers and customers

We ensure the financial stability and growth of the Company's value, as well as a high level of openness and transparency of the information on the Company's financial and production activities

Shareholders and investors

Regional communities and population

We contribute to the development of infrastructure, create jobs and implement social programmes, reduce the negative impact on the environment

We create a transparent competitive environment and fulfil our contractual obligations

Business partners, suppliers and contractors

Company's personnel

We guarantee fair remuneration for work, provide opportunities for training, professional growth and the realisation of creativity; we also provide safe working conditions and high social guarantees

The whole Company

We implement projects to develop grid infrastructure in areas of potential economic development, and provide the required balance of consumption and electricity resources; we are currently implementing an import substitution programme, which contributes to the development of the domestic electro-technical industry

Understanding its responsibility, Federal Grid Company seeks open and mutually beneficial cooperation with all of its stakeholders, taking into account their opinion, interests and feedback.

For more information on the Company's communication with the stakeholders, please see the respective sections of the Report on Social Responsibility and Corporate Sustainability.

How We Work

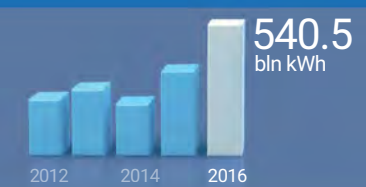
Our Operation Principles

Results of 2016

1 Focus on Customers

We maintain high standards of customer service, providing about half of the total energy consumption in Russia

Electric power supply to consumers from UNEG

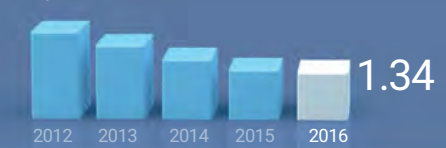


0.8 th. km of electricity transmission lines commissioned
8.8 th. MVA of transformer capacity commissioned

2 Reliability

We provide reliable and uninterrupted electricity transmission via backbone electric grids

Specific accident rate



3 Responsibility

Communication with stakeholders to maintain sustainability in the long-term

Environmental expenses and investments, million RUB



Industrial accident rate



4 Innovation

We invest in upgrading and expanding the electric power infrastructure and apply advanced innovative technologies

R&D financing, billion RUB



5 Economic Efficiency and Investment Attractiveness

We optimise business processes to improve financial results, and maintain the balance of interests of our shareholders and the Company's needs for development

Adjusted net profit¹



Total shareholder return (TSR)



¹ Net profit secured by cash funds (adjusted for the balance of accrual recovery of bad debt provisions and the revaluation of fixed assets and financial investments).

15 YEARS TOGETHER with Russia

**Continuation of reforming Unified Energy System of Russia.
Consolidation of the Company's key assets**

History

Commencement of reforming Unified Energy System of Russia. The Company's development



Elimination of electric power deficiency in the Primorsky Territory, and the development of Vladivostok (2002–2006) p. 125



Commissioning of facilities for power output at Bureyskaya HPP (2004–2005) p. 125



Commissioning of facilities for power output of the 3rd power unit of Kalinin NPP; improvement of the reliability of the power supply to the Cherepovets industrial hub (2004) p. 23



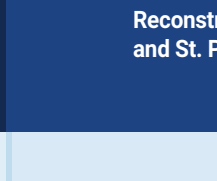
Construction of the 500 kV Aluminievaya substation for electricity supply of the Khakassky aluminium plant (2006) p. 103



Commissioning of the 500 kV Emelino substation in the Sverdlovsk Region, and the connection of new capacities of large pipe plants (2008) p. 71



Reconstruction of the Ochakovo substation, and the Moscow Ring 500 kV (2008) p. 23



Reconstruction and construction of several substations and St. Petersburg Power Ring 330 kV (2007–2013)



Construction of electricity supply facilities of the Valaam Archipelago (2008–2015) p. 13



Power supply for the sports facilities of the 2014 Olympic Games, including the construction and reconstruction of 36 electric grid facilities (2009–2013) p. 37



Construction of electricity supply facilities for the Eastern Siberia – Pacific Ocean (ESPO) pipeline system (2009–2014)

Construction of OHL 220 kV Neryungrinskaya GRES – Nizhny Kuranakh – Tommot-Maya with SS 220 kV Tommot and SS 220 kV Maya for power supply to the regions of South Yakutia (2009–2017)

Construction of a power bridge for the OHL 500 kV Zeyskaya HPP – Amurskaya – State Border (2010–2013)

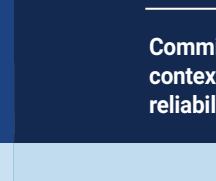
Construction of OHL 500 kV Krasnoarmeyskaya – Gazovaya with expansion of the SS 500 kV to provide power supply for large industrial enterprises (2011–2015)



Construction of the SS 750 kV Gribovo for capacity output of the 4th power unit of Kalinin NPP (2012–2013) p. 23



Construction of the first underground power facilities in Russia for electricity supply to the Skolkovo Innovation Centre (2012–2013) p. 23



Commissioning of 501 MVA of transformer capacity in the context of recovery from an accident and to increase reliability at Sayano-Shushenskaya HPP (2013–2015)



Reconstruction of SS 220 kV Ledyanaya for power supply to The Vostochny Cosmodrome (2014) p. 125



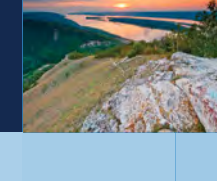
Construction of facilities for power output to BNPP-2 (Beloyarsk Nuclear Power Plant) (2014–2015)



Commissioning of electricity supply facilities at the Vankor field (2014–2016) p. 91



Connection to the backbone grids of the offshore oil loading port of Kozmino (2015) p. 125



Electricity supply to the Kuyumba-Taishet oil pipeline

Connection of the Antipinsky refinery to the new FGC UES 220 kV substation – Gubernskaya

Upgrading and commissioning of the 500 kV Kuibyshevskaya substation, covering over 70% of electricity needs in the Samara region p. 49

2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

State registration of JSC FGC UES

Inclusion of the Company in the Register of Natural Monopoly Entities in the Fuel and Energy Complex, as well as in the list of commercial organisations and entities on the Federal Wholesale Electricity and Power Market

A large-scale reform of the electric grid complex was carried out; as a result, the ownership and management of the backbone grids of JSC RAO UES of Russia were handed over to JSC FGC UES.

The reorganisation of JSC FGC UES was completed in the form of merging 56 backbone grid companies, JSC RAO UES of Russia, JSC State Holding and JSC Minority Holding FGC UES

The number of FGC's shareholders exceeded 470 thousand

Listing on the RTS and MICEX exchanges.

Launch of the GDR programme

Approval of the FTS parameters for the Company's transition to RAB-regulation for 2010–2012.

Inclusion of the Company's shares into the calculation of the stock indexes of MSCI Russia and MSCI Emerging Markets

Listing of depositary receipts of JSC FGC UES on the primary exchange of the LSE

JSC Rosseti, a state-owned company, becomes the major shareholder, owning 80.6% of ordinary shares of JSC FGC UES

The endorsement of the Long-Term Development Programme of the Company for 2015–2019, with an outlook for 2030, by the Government of the Russian Federation.

Bringing the Company's corporate governance system and practices in line with the key recommendations of the Corporate Governance Code of the Russian Federation and the listing rules of the Moscow Stock Exchange, including the approval of a new version of key internal documents.

Statement from the Chairman of the Board of Directors



The unity of our strategic priorities – the reliability of energy supply to consumers, the development of backbone grids, as well as economic efficiency and financial stability of the company – shall be the cornerstone of our success.



Oleg Budargin
Chairman of the Board of Directors of Federal Grid Company

Dear shareholders, customers, partners, employees and all other parties somehow related to the activities of Federal Grid Company of Unified Energy System!

In 2017, FGC celebrates its 15th anniversary. The year 2002 marked a new stage in the development of Russian electric grid industry, which continues to the present day. Today, Federal Grid Company meets the global standards of the industry in terms of major indicators, and in some indicators, we are ahead of foreign companies.

Development of the Unified National (all-Russian) Electric Grid

The Company is successfully carrying out the construction of electric grid infrastructure, thus contributing to the social and economic development of the regions of our country and providing a reliable electricity supply to consumers.

In the course of business operations, we have been implementing a number of significant projects of regional and national importance for the construction of new and the reconstruction of existing backbone grid facilities.

We continue to develop the Unified National (all-Russian) Electric Grid taking into account the changing economic environment.

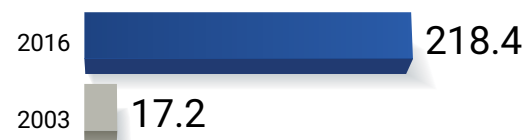
Grid Reliability

Not only are we constructing and reconstructing electric grid facilities, but, from year to year, the professionals of Federal Grid Company make efforts to ensure the reliability of power supply to our consumers, by carrying out diagnostic studies, performing a large-scale repair programme and preparing for the peaks of load. All of these operations are performed countrywide on a very large scale, considering that FGC is one of the largest electric grid companies in the world.

Economic Efficiency and Financial Sustainability

Our key strategic task is managing costs in order to maintain increasing economic efficiency. Capital investment management is performed in line with the investment programme, which has been adopted for a five-year period, by taking into account the long-term development plans of the domestic electric power industry and compliance with the principles of technical and economic feasibility in terms of regulated tariffs.

Company's revenue, billion RUB



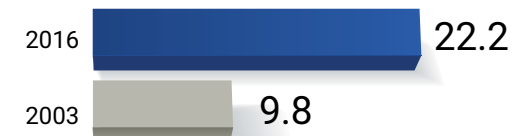
The Company's operating expenses are successfully controlled by the management by optimising the structure of the personnel, managing procurement activities and implementing the long-term import substitution programme.

Sustainability

Our priorities in this area remain unchanged. Paying close attention to the Company's operating and financial performance, we understand the importance of maintaining a sustainable attitude to the issues of environmental protection and the social sphere, as well as simultaneously developing and maintaining an effective dialogue with all categories of stakeholders.

Our personnel is one of the core assets of the Company. Therefore, the KPI system of Federal Grid Company includes such indicators as "Growth of Labour Productivity" and "Absence of Increase in the Number Injured in Accidents."

Company's average headcount, thousand employees



Corporate Governance

The Company follows the basic principles of corporate governance that are stated in the Corporate Governance Code of the Bank of Russia. We work hard to improve the corporate governance of our subsidiaries, including the development of internal documents to meet the Company's high standards.

The Company's highly professional management team and qualified personnel contribute greatly to the realisation of our long-term strategy. We have estab-

lished efficient communication between the Board of Directors and management officers, so we are able to succeed in making approved decisions in the shortest time possible.

For shareholders, the results of our operations are expressed in the growing value of shares and dividends payments. Upon the results of the reporting year, FGC's shares took the lead, in terms of TSR, among the most liquid shares in both the electric power sector and on the Russian market as a whole.



The Company's shares are still undervalued from a fundamental point of view and are traded at a high discount compared to analogues on emerging markets. The growing value of FGC's shares on the stock exchanges demonstrates a positive assessment of the Company's prospects by investors.

In 2016, Federal Grid Company maintained its production indicators at a high level and significantly improved its financial performance in the context of contradictory trends in the domestic economy.

The mission of Federal Grid Company, the leading subsidiary of PJSC Rosseti, is to continuously provide reliable and safe energy supply to consumers, and increase efficiency of our core operations.

The results of the past year lay a solid foundation for the further activities in the priority areas.

The company shows stable positive dynamics of the main indicators

Chairman of the Management Board of PJSC FGC UES Andrey Murov Answers Questions About the Company's Main Outcomes in 2016 and Prospects for the Future

Tell us about the Company's production indicators in 2016. To what extent have you managed to achieve the planned results?

First of all, I would like to thank all FGC's employees for their work in 2016. Their professionalism has enabled the Company to show high performance every year.

The accident rate is a significant indicator of our operations. It has been declining for several years in a row.

-45% Accident rate reduction in 2012–2016

In the reporting year, electric power supply from UNEG to the consumers of FGC services increased by 2.8% and amounted to 540.5 billion kWh. Today we are managing 140.3 thousand km of power transmission lines and 939 substations with a total capacity of 336.4 GVA.

Our customers should be glad to know that the Company maintained its key indicators in relation to the terms and quality of technological connection.

How would you comment on the financial and economic results of the Company's operations in 2016?

The financial results of the year for FGC can be recognised as quite strong. The Company's revenue under RAS exceeded RUB 218 billion, having increased by 26%. The adjusted EBITDA amounted to RUB 120 billion – a growth of more than 15%.

Record revenue in the amount of RUB 45.5 billion has been obtained from technological connection, a growth of over three and a half times more compared to 2015.

The Company's adjusted net profit (without taking into account the revaluation of financial investments and reserves) has increased nearly thrice compared to the previous year, exceeding RUB 59 billion.

"The solid results of FGC at the end of the year demonstrate the stable position of the Company on the electricity market."

In 2016, FGC became one of the leaders by quotation growth on the Russian stock market. The Company's capitalisation has increased almost thrice over the year – a significant indicator of growth in investor credibility. The total shareholder return (TSR) exceeded our target value. Foreign investors have significantly increased their presence in the Company's share capital.

Our financial sustainability is confirmed by credit ratings of the international agencies, maintaining at the level of the sovereign rating of the Russian Federation.

What kinds of measures on financial administration were taken in 2016?

In 2016, we continued to optimise costs. With an increase in the amount of equipment under maintenance due to the implementation of a large-scale investment programme, we managed to substantially reduce the costs of materials and services by 5%.

"The management of our capital and operating expenses is the basis of FGC's financial sustainability"

We have managed to overfulfill the target costs optimisation: at present, net investment costs are by 30% below the level of 2012, and operating costs – by 46%. Investors especially highlighted our management of expenses during regular meetings with the investment community organized by the Company.

One of key factors that is important for us and has an impact on our financial results is the increase in the payment collection rate for electricity transmission.

What can you say about the Company's dividend policy? Should shareholders expect the same high returns as in 2015?

In 2016, the Company paid dividends in the amount of RUB 17 billion as a result of activities in 2015, which corresponds to 95% of the profit under RAS.

"Payments of dividends in 2016 were a record high in the history of the Company"

The General Meeting of the Shareholders will take a decision on the dividend payment for 2016 based on the recommendations of the Board of Directors, given with account of the current normative legal acts and the financial performance of the Company.

Tell us more about the results of the Company's investment activities in 2016 and for the near future.

At the end of the year, the Ministry of Energy of the Russian Federation approved the amendments to the investment programme for 2016–2020¹. The extent of the Programme's financing for 2016 amounted to RUB 99 billion; the total amount for the five-year programme is RUB 482 billion.

The key parameters of the Programme were approved by the federal executive authorities and our major shareholder PJSC Rosseti.

In 2016, capacity in the amount of 8.8 MVA and about 827 kilometres of grids were commissioned. In 2017, in accordance with the adjustment of the investment programme for 2016–2020, the planned volume of financing for FGC's investment programme will be about RUB 105 billion, and transformer capacity in the amount of 13.2 thousand MVA are to be commissioned and 2.3 thousand kilometres of power transmission lines are to be built.

What amount of funds were allocated to finance the repair programme?

In 2016, total investment in maintenance and repairs amounted to RUB 10.6 billion. The repair campaign of FGC UES is 100% completed.

"The right balance between the implementation of the repair programme and the construction of new electric grid facilities guarantees a reliable energy supply to our consumers"

How do you assess the role of management in achieving top results?

Consistent work of our team and commitment to the chosen way of the Company's development are at the heart of our current achievements.

We demonstrate obvious improvements: growing revenues from the provision of technological connection services, transfer of electricity to direct consumers, and decreasing costs. The macroeconomic situation did not affect FGC's financial sustainability, and the amount of debt remains at a comfortable level.

At the same time, in terms of reliability indicators, the Company is comparable to the best foreign counterparts.

As the Head of the Company, what do you expect from 2017?

By no means, FGC will keep on maintaining a reasonable balance between development, reliability and economic efficiency.

I repeat, the quality of services provided to consumers is definitely globally competitive. Our minimum goal is not to allow any decrease.

We have a lot of interesting projects to be implemented in future. In 2017, three substations in the Moscow Region shall be commissioned upon renovation, power transmission schemes for Rostov and Leningrad NPPs are being implemented. All the major titles to strengthen the links between UES of the Central Region and UES of Northwestern Region are being completed.

Activities under macro-projects of state importance will be continued: external electricity supply of Baikal-Amur and Trans-Siberian railways, ESPO pipeline systems, and the Power of Siberia project.

In 2017, FGC UES celebrates its 15-year anniversary. We cross this boundary as a stable, reliable company that is consistent in its actions and attractive for investors.



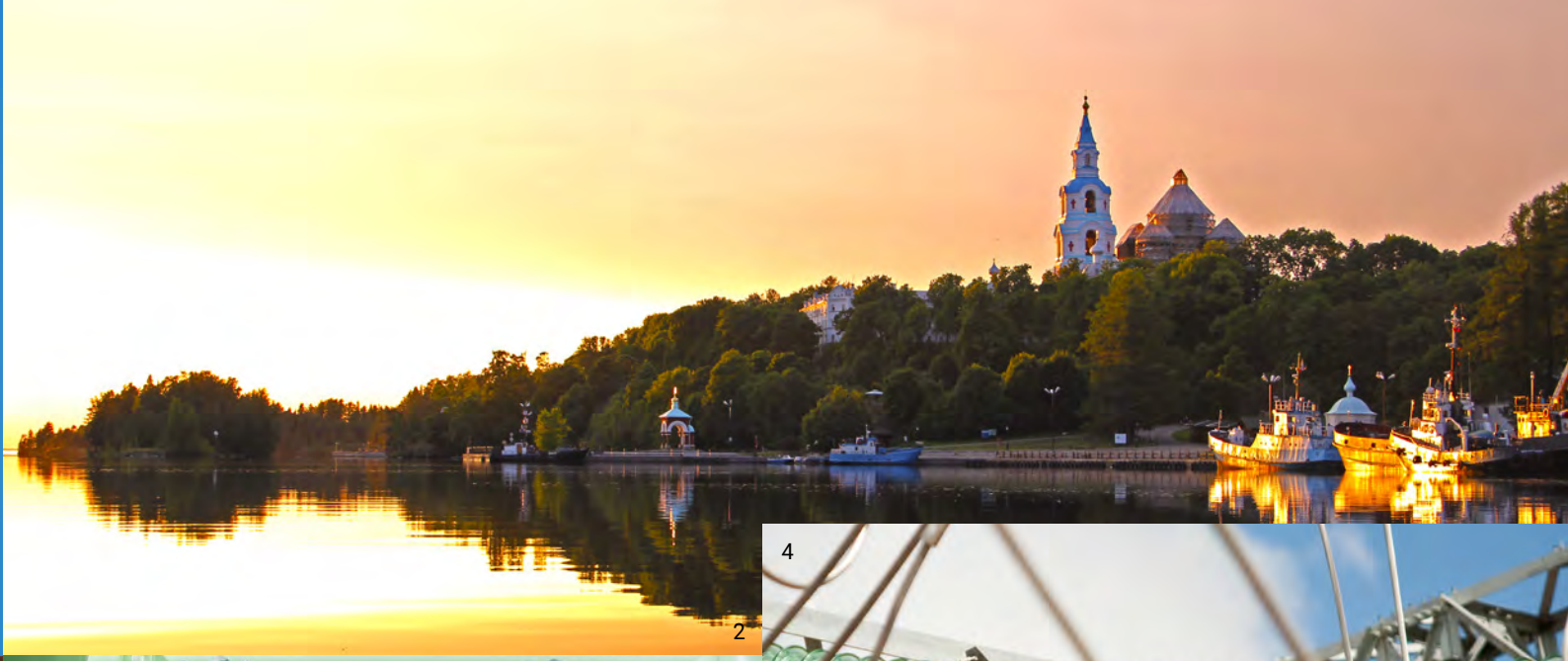
¹ The Order No. 1432 of The Ministry of Energy of the Russian Federation on 28 December 2016.



Backbone electric grids of the Northwest (MES Northwest)

FGC BRANCH

1



4

2

3

PHOTOS:

- 1 St. Petersburg
- 2 Valaam
- 3 330 kV SS Vasileostrovskaya
- 4 330 kV SS Vostochnaya,

Key infrastructure projects

St. Petersburg Energy Ring, 330 kV

2005–2019 Renovation and construction of substations: 330 kV Vostochnaya, 330 kV Volkhov–Severnaya, 330 kV Zavod Ilyich, 330 kV Severnaya, 330 kV Vasileostrovskaya
Improving the reliability of the electricity supply to the metropolis and minimizing the likelihood of major contingencies.

2010–2019 Capacity output of Pecherskaya SDPP. 220 kV HVTL, Pecherskaya SDPP – Ukhta-Mikun'
Improvement of reliability of electricity supply to the consumers in the southern part of the Komi Republic, as well as reliability of electricity transfer to Vologda power system.

2010–2016 Power generation of Leningradskaya NPP. Construction of 330 kV HVTL, Gatchina–LNPP. Approach lines of 330 kV HVTL, Leningradskaya-Balti to SS Kingiseppskaya
Improvement of reliability of Leningradskaya power system, ensuring the power output of unit 1 of Leningradskaya NPP.

External electricity supply to the Valaam island

2008–2013 Construction of a new 35 kV Valaam substation, a 35 kV aerial cable line with the total length of 50 km, and reconstruction of a 220 kV Lyaskel substation.
Ensuring reliable electricity supply to the Valaam archipelago.

SERVICE AREA

11 entities of the Russian Federation in the North-West Federal district, with a population of more than 14 million people.

PERSONNEL

More than 2.3 thousand people

ASSETS¹

HVTL 13.3 thousand km
99 substations of 35-750 kV (in addition to 330 kV SS, Sovetsk, (402 MVA), leased by JSC Yantar'energo)
41 TSS, 6-10 kV
Capacity — about 39.5 thousand MVA

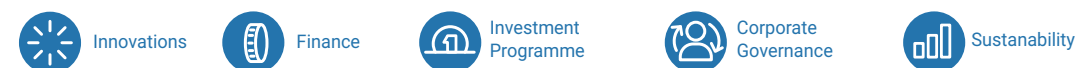
OPERATIONS

Electricity transmission. The branch provides electricity connection of UES of Northwest to the power systems of the Central Region of Russia, Belarus, as well as electricity transmission to Finland, Estonia, and Latvia.



¹ according to annual performance reports

Key Events of the Year



January 01 FGC connected the Oil Loading Seaport Kozmino to the backbone electric grids. The power volume to the consumer is 28.6 MW. Two 220 kV transmission lines have been constructed, which connect through permanent lines the substation of the Oil Loading Seaport to the working substation of FGC 500 kV "Lozovaya."

March 03 The works on the first facility were completed within the activities aimed at strengthening the ties between the power systems of the Northwest and the Centre. The 330 kV Kingiseppskaya substation was connected to 330 kV Leningradskaya-Balti OHL. The first stage of the total reconstruction of the substation was completed.

The long-term credit rating of Federal Grid Company according to the National Scale of Moody's Interfax Rating Agency was withdrawn on the initiative of the rating agency due to the termination of assigning the National Scale ratings by the agency. The decision to withdraw the agency's National Scale ratings will not affect their assignment on the Global Scale.

April 04 FGC connected the Antipinsky Oil Refinery to the grids in the Tyumen Region. The consumer received 60 MW of power. Electricity to the refinery is supplied by the new substation of FGC UES- 220 kV Gubernskaya.

The international rating agency Moody's confirmed the Company's global rating according to the global scale at Ba1, which corresponds to the value of the sovereign rating of the Russian Federation.

June 06 The annual General Meeting of Shareholders of PJSC FGC UES was held. New members of the Board of Directors and the Audit Commission were elected, new versions of the Articles of Association and the Regulations on the Board of Directors were approved; the annual report, annual financial statements, the auditor of PJSC FGC UES was approved; the decision on the distribution of profits based on the results of 2015 and the payment of dividends was taken.

PJSC FGC UES and the JSC Corporation for Developing Small and Medium Business (SME Corporation) signed an agreement on cooperation. The document provides a set of measures aimed at expanding of the availability of the Company's purchases for small and medium-sized businesses.

July 07 FGC provided electricity for the Kuyumba – Taishet oil trunk pipeline. Due to connection to the UNEG, the oil pumping stations received 19.1 MW of electric power.

The Board of Directors of PJSC FGC UES approved the updated Innovation Development Programme of the Company for 2016–2020 with an outlook up to 2025. The programme is updated in accordance with the instructions of the Government of the Russian Federation.

August 08 FGC and a Chinese manufacturer of equipment, Huaming Power Equipment, signed a memorandum on cooperation related to the development of innovative electrical equipment, as well as the promotion of localisation of production in the Russian Federation.

September 09 The International rating agency Standard & Poor's revised the forecast for the change in FGC's credit quality, according to the global scale, from negative to stable in the course of a similar rating event in relation to the Russian Federation. The level of the International rating of the Company remained at the same level of BB + (the least speculative category) and corresponds to the value of the Russian sovereign rating.

October 10 FGC was awarded the Crystal Pyramid–2016 grand prize in the category of Best Corporate University for its special contribution in human capital management. The awarding ceremony was held during the XVII Summit of HR Directors of Russia and CIS Countries.

The International rating agency Fitch Ratings has changed the rating forecast for the Company from negative to stable. The level of credit quality, according to the International scale, was confirmed at the same level as the BBB- (investment category), which is equivalent to the credit quality of the Russian Federation.

November 11 FGC placed exchange-traded Series BO-02 bonds for RUB 10 billion with a 5-year maturity before the formal offer. The coupon rate is set at 9.35% per annum. The funds received from the placement of bonds will be used for the implementation of the investment programme.

FGC confirmed the compliance of the environmental management system with the requirements of the International standard ISO 14001: 2004; the validity of the certificate was extended by the certification authority until the next compliance audit.

December 12 After a major modernisation, FGC commissioned the 500 kV Kuibyshevskaya substation, which covers more than 70% of the energy needs in the Samara region.

FGC completed the reconstruction of one of its key facilities of the UES Northwest – the 330 kV Kolpino substation in St. Petersburg. As a result of this reconstruction, the reliability of the power supply in St. Petersburg has increased and the operating costs have been reduced. The delivery of 79.4 MVA capacity to the Izhora Pipe Mill and Rolling Mill No. 3 was provided.

The Ministry of Energy of the Russian Federation approved the adjustment of the Company's investment program for the period of 2016-2020. The document takes into account the results of public discussions and interaction with the expert community. Financing of the investment program is planned in the amount of RUB 482.28 billion.

Main Events After the Reporting Date

January 2017 The 220 kV transmission line Shakhty - Donetskaya has been built. New PTL will expand the power supply layout in the North of the Rostov region and will establish the energy ring 220 kV "Shakhty–500 – Donetsk –Pogorelovo – B–10 –Shakhty–500."

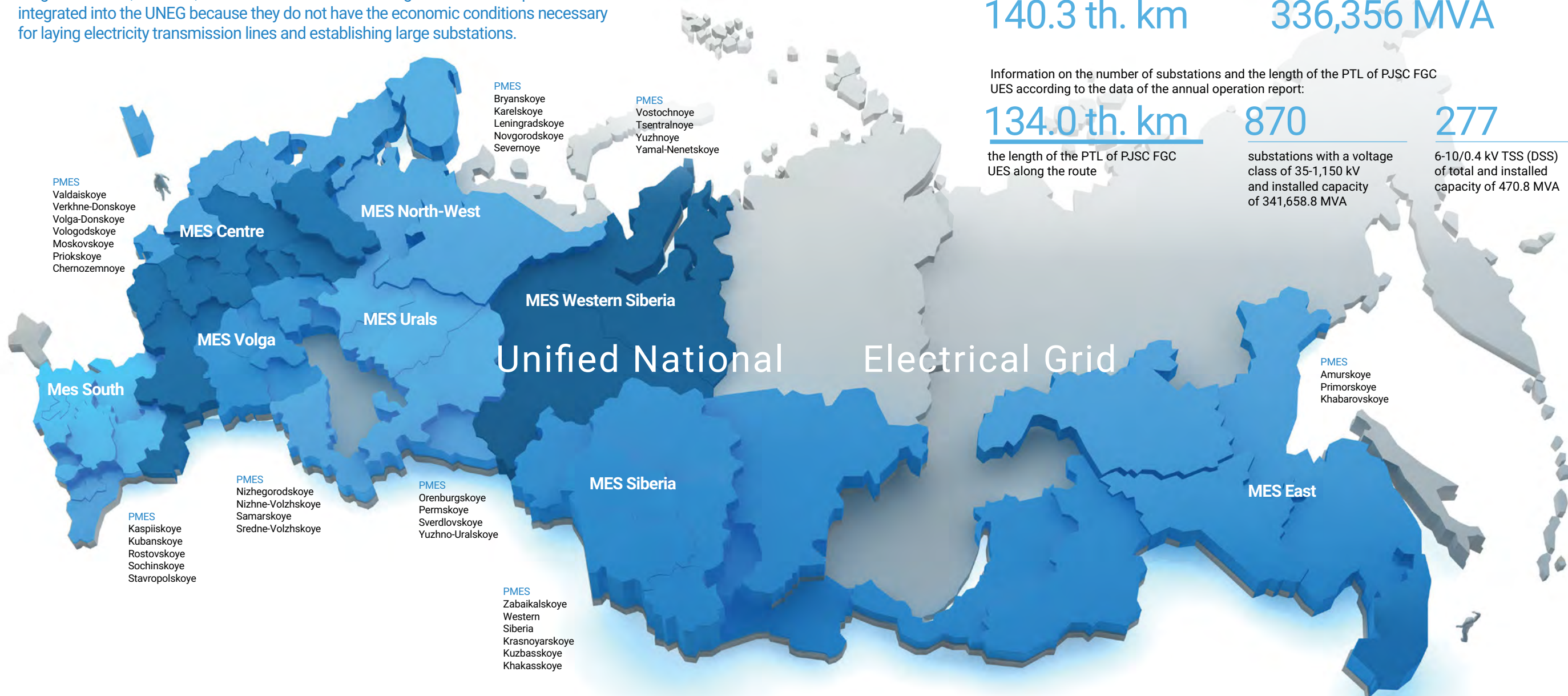
February 2017 The International rating agency, Moody's, changed the forecast for FGC credit quality from negative to stable after a similar rating event in relation to the Russian Federation.

The national long-term rating of PJSC FGC UES according to the Fitch Ratings metric was withdrawn on the initiative of the rating agency due to the termination of assigning the National Scale ratings in the Russian Federation by the agency. The decision is taken upon introduction of new regulatory requirements for the operations of credit rating agencies in Russia. The decision to withdraw the agency's National Scale ratings will not affect their assignment on the Global Scale.

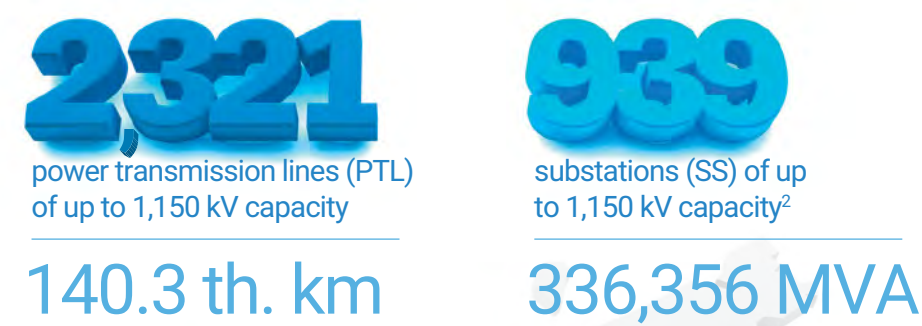
March 2017 The International rating agency Standard and Poor's changed the forecast for FGC's credit quality from stable to positive after a similar rating event in relation to the Russian Federation.

Geography

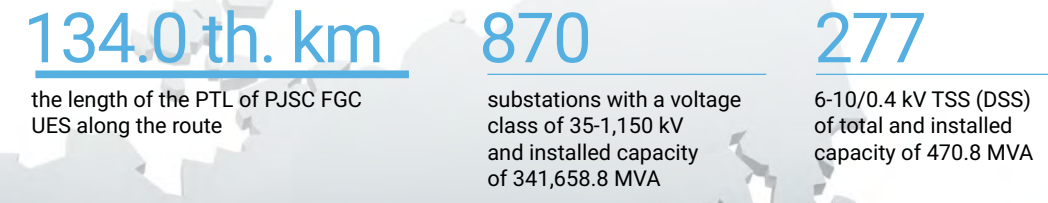
Our Company operates in **77 Russian regions** covering an area of more than **15.1 million sq. km.** The territory in which the Company's facilities are located is divided into zones of responsibility for the corporate branches – backbone electrical grids (MES), and their local enterprises (PMES). Sparsely populated territories with no large customers – such as Chukotka, Kamchatka, Magadan Oblast, Sakhalin, the Nenets Autonomous Okrug and the Altai Republic – are not integrated into the UNEG because they do not have the economic conditions necessary for laying electricity transmission lines and establishing large substations.



Information on a number of the substations and the length of the PJSC FGC UES power transmission lines is based on the state registration of the ownership rights of PJSC FGC UES and other proprietors:



Information on the number of substations and the length of the PTL of PJSC FGC UES according to the data of the annual operation report:



51 regional branches

- 8 backbone electrical grids (MES)
- 41 backbone electrical grid enterprises (PMES)
- 1 Technical supervision centre¹
- 1 Special purpose production centre – Bely Rast

24 Subsidiaries and Associated Companies

PJSC FGC UES participates in 24 business entities that operate in different industries, including those that support electrical grid facilities

134 interstate power transmission lines

Management of the cross-border interstate power transmission lines

FGC facilitates the transit of electric power at the border of 11 foreign states and performs the collection and processing of data on power exchange via 134 interstate power transmission lines.

Detailed data on FGC's branches is available on the site www.fsk-ees.ru in the section [About the Company / Branches](#)

Further details on PJSC FGC UES subsidiaries and associates are available in the [Appendix 7](#) hereto.

Further details on the Company's international operations, as well as on the electric energy export and import pursuant to the contracts of PJSC Inter RAO, are available in the [Appendix 1](#) hereto.

² including 0.4-110 kV voltage class facilities, but not including power lines and substations of 10 kV and lower voltage class, accepted by PJSC FGC UES for free use and operating in the territory of the Krasnodar Krai.

¹ Liquidated on 3 February 2017

Business Model

FGC UES manages the Unified National Electrical Grid, ensures electricity transmission via backbone lines and provides services for technological connection to electrical grids. To ensure reliable, quality and safe power supply to consumers, we implement projects for the construction of new and the renovation of existing electrical grid facilities, in addition to introducing modern and effective technology and implementing measures for environment protection and energy saving.

We utilise various "capitals" as resources, namely financial and production capital, human resource potential, innovative technology, experience in constructing and operating the electrical grids and environmentally responsible solutions.

The bulk of our revenue is generated through tariffs for electricity transmission that are approved by the Federal Anti-Monopoly Service. Our major customers are regional distribution companies, retail suppliers and large industrial enterprises.

What differentiates FGC from other companies

FGC is the monopoly operator for managing and developing the Unified National Electric Grid

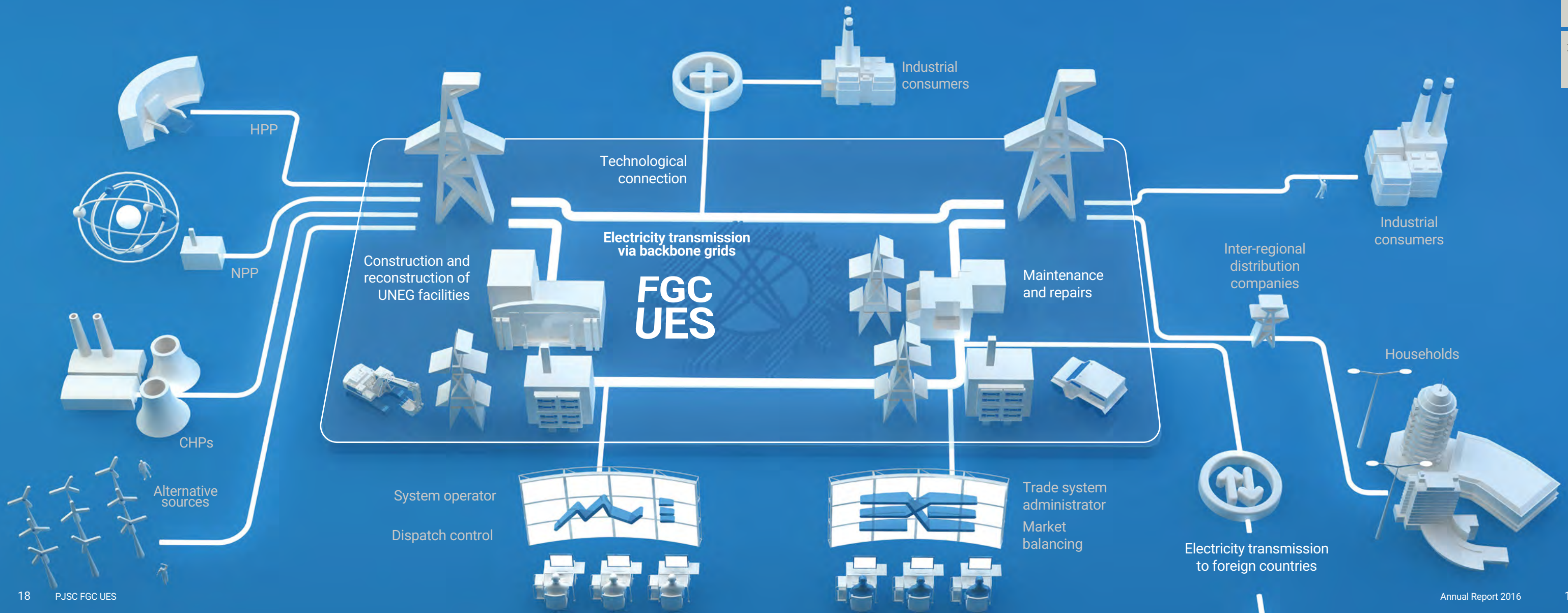
The Company is a number one in the world in terms of the length of the power transmission lines and the transformer capacity




It is a unique infrastructure company that provides reliable and uninterrupted electricity transmission via backbone electrical grids in the Russian Federation

Continuous investments are made into the modernisation and construction of the electric energy infrastructure

More than a half of all energy consumption in Russia is electricity transmitted via FGC's grids

Our focus on innovative development and advanced technology



	Capitals	Strategy	Risks	Risk management	Created value
Financial capital	<p>RUB 987 billion of equity capital</p> <p>RUB 262 billion of liabilities</p>	<p>Increase of return on financial capital and maintenance of financial sustainability</p> <p>Page 55</p>  <p>Economic efficiency</p>	<p>Lack or increase in cost of attracted borrowed capital</p> <p>Risk of unbalanced tariff decisions</p>	<p>Active interaction with investors and market, diversification of sources of financing, increasing transparency and business predictability to reduce the risk premium as part of the cost of debt</p> <p>Preparing economically justified proposals on tariff regulation</p>	<p>FOR SHAREHOLDERS</p> <p>267% TSR for 2016</p> <p>RUB 17 billion dividend payment for 2015</p>
Productive capital	<p>870 substations 35–1100 kV¹</p> <p>134 thousand km of electricity transmission lines¹</p>	<p>Investments to electric grid infrastructure development and operating assets renovation</p> <p>Page 46</p>  <p>UNEG development</p>	<p>Decrease in return on capital:</p> <p>Cost overrun and failure to meet eadlines</p> <p>Electric mains interruption (failure)</p> <p>Excess/lack of power</p>	<p>Innovations and planning of the structure of network assets</p> <p>Selection of contractors on competitive basis, control of construction schedules</p> <p>Reconstruction of electric grid facilities</p> <p>Forecasting of grid load</p>	<p>FOR THE STATE</p> <p>RUB 29.2 billion of tax payments</p> <p>FOR CONSUMERS</p> <p>827 km of electricity transmission lines commissioned</p> <p>540.5 billion kW·h net electricity supply</p> <p>481 contracts for technological connection as of the end of 2016</p>
Intellectual capital	<p>RUB 3.3 billion of intangible assets</p> <p>RUB 414 million of R&D financing</p>	<p>Development of research and innovative potential and implementation of new technologies</p> <p>Page 52</p>  <p>UNEG development</p>	<p>Risks related to innovative technology implementation</p> <p>Infringement of intellectual property rights</p>	<p>Improvement of planning and acceptance of R&D works</p> <p>Skill improvement</p> <p>Improvement of contractual activities</p>	<p>FOR EMPLOYEES</p> <p>18 thousand jobs</p> <p>RUB 69.8 thousand average salary</p> <p>Number of industrial accidents reduced by 40%</p>
Human capital	<p>22.2 thousand employees</p> <p>63.5% with professional education</p> <p>84.3% operating employees</p>	<p>Social support of the employees, focus on development and training of the personnel</p> <p>Page 65</p>	<p>Reduction in qualification level of operation personnel</p> <p>Recruitment of personnel with insufficient qualification</p>	<p>Meeting the deadlines for operation personnel mandatory trainings</p> <p>Selection and recruitment of skilled personnel</p>	<p>FOR SOCIETY AS A WHOLE</p> <p>RUB 194 million was allocated for environmental protection</p> <p>The volume of production wastes reduced by 4%</p> <p>RUB 21 million were allocated for the development of regions in the form of contributions</p> <p>RUB 152 million financing of sponsorship contracts</p>
Natural capital	<p>901 thousand cubic metres of water consumption</p> <p>933.6 million kW·h electricity consumption for substations' own needs</p>	<p>Reduction of the adverse impact on environment, improvement of energy efficiency</p> <p>Page 66</p>	<p>Environmental risks (environmental pollution risks)</p>	<p>Environmental policy implementation</p> <p>Implementation of environmental activities</p>	

15 YEARS TOGETHER with Russia



Backbone electric grid of the Centre (MES Centre)

FGC BRANCH



SERVICE AREA

19 constituent territories of the Russian Federation on the territory of the Central, Northwestern and Southern federal districts with a population over 40 million people.

PERSONNEL

About 4.8 thousand people

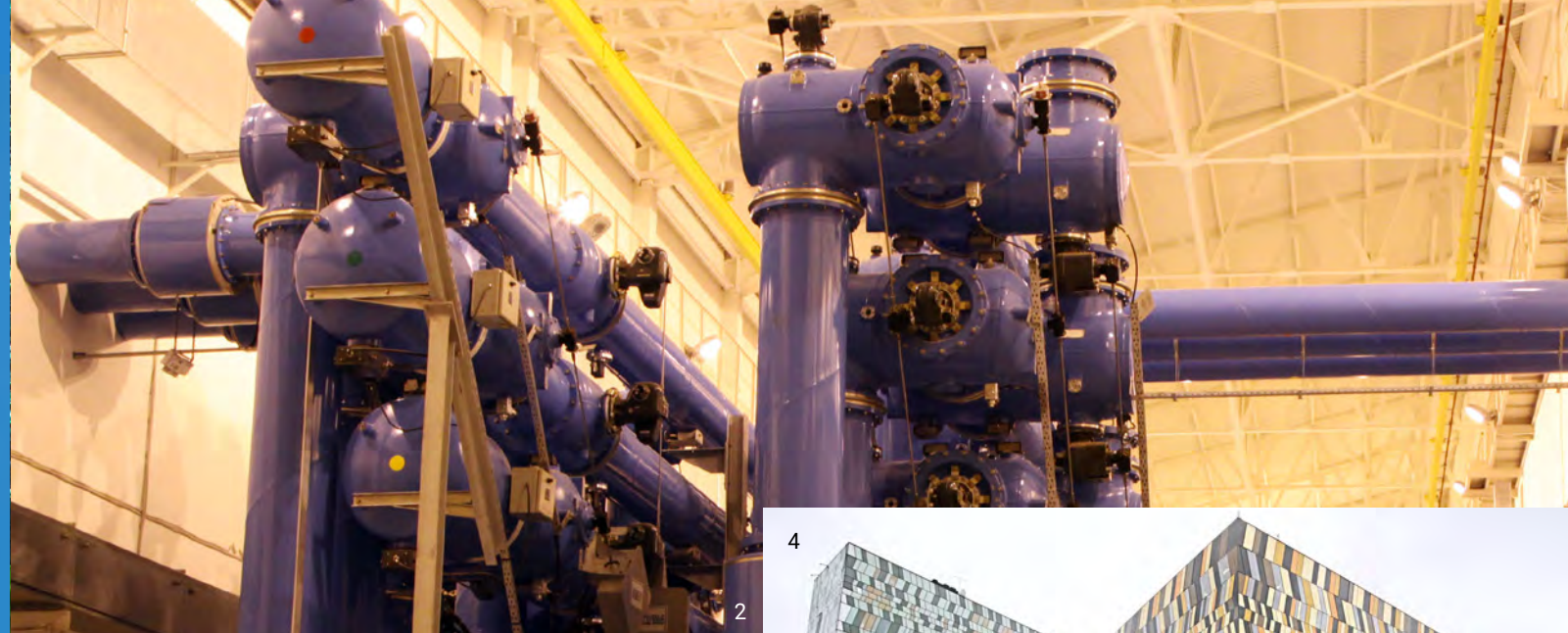
ASSETS¹

HVTL 28.3 thousand km
196 substations, 35-750 kV
1 TSS Belovezhskaya
Capacity – about 98 thousand MVA

OPERATIONS

Electricity transmission. The affiliate provides electricity connection of UES of Centre with power systems of the South, Northwest, Volga, Ukraine, and Kazakhstan.

¹ according to annual performance reports



Key infrastructure projects

- 2004 Construction of 750 kV HVTL, Kalininskaya NPS – Belozerskaya, with 750 kV SS, Belozerskaya**
Power supply of the third power station of Kalininskaya NPS, capacity of 1,000 MW, to Vologda power system;
Improvement of reliability of the electricity supply to the enterprises of the Cherepovets industrial cluster – Severstal, Azot, AMOFOS.
- 2008 Comprehensive reconstruction and technical reequipment of 500 kV SS, Ochakovo**
Reconstruction of one of the largest facilities of the Moscow power system, improvement of operation reliability of the backbone grid of Moscow (500 kV Moscow ring)
- 2012–2014 Construction of 750 kV HVTL, Kalininskaya NPS – Gribovo, 500 kV HVTL, Gribovo-Dorokhovo, 220 kV ACL, Dorokhovo–Sloboda, 750 kV SS, Gribovo, 500 kV SS, Dorokhovo, expansion of 750 kV SS, Belozerskaya**
Power supply of the fourth power station of Kalininskaya NPS, capacity of 1000 MW, to Moscow and Vologda power systems.
- 2012–2014 Construction of 220 kV SS, Skolkovo, and 220 kV SS, Soyuz**
Creation of electricity supply scheme for the Skolkovo Innovation Centre. Construction of the first underground power units in Russia, voltage of 220 kV.

PHOTOS:

- 1 Moscow
- 2 500 kV SS Ochakovo
- 3 220 kV SS Skolkovo
- 4 Skolkovo

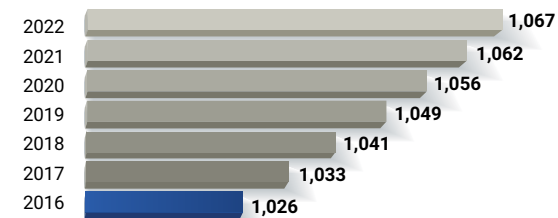
Market Review

Macroeconomics

The key Russian macroeconomic indicators changed slightly in 2016. The GDP decreased by 0.2%, the industrial production index increased by 1.13%, and investments reduced by 2.3%.

The volume of electric energy consumption in the UES was 1026 billion kWh in 2016 and compared to 2015, increased by 1.7%. There has been a trend towards demand stabilisation in recent years, which will probably remain in the near future. The forecasted annual average growth of demand for electric energy across the UES of Russia is a maximum of 0.81% for the period of 2016-2022¹. The optimisation of consumption modes by consumers and the possibility to use distributed sources of generation are expected to restrain the growth of the volume of FGC's grid services.

Forecast of demand for electric energy in Russian Federation, billion kWh



In 2016, the average annual inflation rate amounted to 7.1%, showing a significant decline compared to 15.5% in 2015. Decline of the inflation rate positively impacted the Company's operations as it led to reduction of the FGC debt cost, a large part of which had been placed at a floating interest rate.

The growth of tariffs for FGC's services is established by the FAS of Russia: as of 1 July 2017, they will increase by 5.5% which, taking into account the change of the capacity, corresponds to the increase of required gross revenues (RGR) by 3%, according to the socioeconomic status (SES). Furthermore, the tariff growth is also lagging behind the forecasted inflation rate and corresponds to the forecast of the social and economic development of the Russian Federation in 2017 and for the planned period of 2018 and 2019. Determining tariff dynamics for the long term allows the Company to conduct financial planning and activities to increase its efficiency more accurately and with reduced risks.

The key interest rate of the Bank of Russia was decreased in 2016 to 10%; at the same time, this decrease did not significantly improve the borrowing conditions in the Russian financial market for the majority of investors, nor was there a significant change in the dynamics of industrial capital investments.

Industry Market

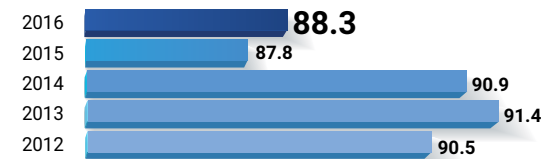
PJSC FGC UES transmits electricity via backbone grids and provides technological connection to the grid. Electricity transmission via backbone grids is a naturally monopolistic type of operation.

According to Russian Federation legislation, PJSC FGC UES purchases electricity and capacity in the wholesale electricity and capacity market (WECM) in order to compensate for the actual losses in the UNEG, with the exception of the losses accounted for and paid by the WECM's participants in market-clearing prices. The purchase occurs in the territory of the Russian Federation's constituents, united into pricing and non-pricing zones.

Markets for goods and services that relate to a natural monopoly depend to a significant extent on the general economic conditions of the country. The service volume of a backbone electrical grid is determined by the volume of capacity provided to the consumers of transmission services, in addition to the capacity value of the energy receiving devices connected to the grid.

Market of the Electricity Transmission Services

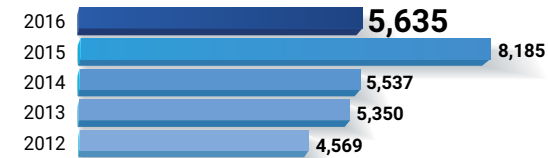
Capacity Paid by Consumers of Transmission Services to PJSC FGC UES, GW



In the reporting year, the value of paid capacity was 88.3 GW on average; the growth of paid capacity at the end of 2016 in comparison with 2015 was 0.5 GW.

Market of Technological Connection Services

Physical volume of technological connection services, MW¹



¹ The maximum capacity under technological connection agreements. 2013: specification of the maximum capacity for the executed TC agreements in accordance with the accounting statements

What is PJSC FGC UES's Response to the Market Trends?

Continuation of the Restrictive Tariff Policy with Transition to Establishing Grid Tariffs on the «Inflation Minus» Principle

The Company's tariff growth for 2017–2019 corresponds to the social economic development forecast of the Russian Federation for 2017 and for

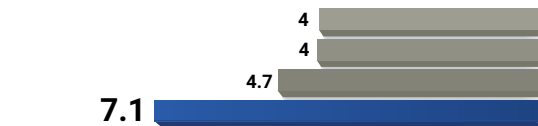
There has been no clear trend in the dynamics of the physical volume of technological connection services (consumers and generation) in the past years. This has been determined, to a great extent, by the demand in grid capacity for investment projects for consumers and electricity producers.

In terms of investment activity, the economic decline continues to impact the volume of technological connection to the grids. The significant growth of physical volume in 2015 was a result of the completion of a number of large-scale technological connection projects. In 2016, the physical volume of technological connection services stabilised and did not show any trends toward growth.

Electric power cross-border turnover did not have any evident impact on the volume of FGC's paid export/import grid services in 2016.

the planned period from 2018 to 2019. The Company is implementing measures aimed at improving the efficiency of the Company's operations and investments, and at the consistent implementation of the approved parameters of RAB regulation, as well as at drawing up well-balanced and economically justified proposals about how to adjust and set these parameters.

Inflation forecast in Russian Federation, %



Capacity tariff growth, %



Repair and Execution of Commitments to Pay for the Technological Connection of Generation Facilities to Backbone Grids

There is a big gap between the technological connection work completed and paid for by applicants that amounts to tens of billions of rubles. Starting from

2015, there was certain positive progress in solving this issue after the regulating authorities had approved payment amounts in relation to several projects, and in 2016, the Russian Government adopted a resolution (No. 1265 on 30 November 2016) that established the rules for instalment payments for technological connection.

Low Capacity Utilisation

Low capacity utilisation during peak periods is one of FGC's key issues. It reflects the principles that have been forming for decades of designing and planning the UNEG, methods of providing reliability and it is not

subject to rapid changes. The Company counts on fruitful cooperation with the System Operator and the Ministry of Energy of Russia in developing the proposal for enhancing the long-term planning and design of electric power systems, investment planning and the selection of principles for investment projects.

¹ According to the Scheme and Development Programme for the UES of Russia for 2016-2022, approved by the Order of the Russian Ministry of Energy No. 147 on 3 March 2016.

Development Strategy

FGC's mission is to ensure the reliable operation and development of the UNEG adequate to economic growth, and to demonstrate high economic efficiency and cost minimisation.

FGC's strategic plans allow the Company to follow its mission steadily while simultaneously responding to such modern technological and economical challenges as the state of backbone grid, the demand volume, the possibility to satisfy the demand, and others.

The Company's strategic objectives are achieved through adopting and implementing a number of programmes, which include the following:

- Long-term Development Programme
- Investment Programme
- Innovative development programme
- Unified technical policy

- Programme of import substitution of equipment, technologies, materials and systems
- Energy saving and energy efficiency programme
- Operational efficiency improvement programme
- Environmental policy and implementation programme

The Company performs the task of backbone grid development by observing technical and economical expediency principles. In the conditions of tariff restrictions, we minimise investments and at the same time the key projects of national significance are implemented according to the established schedule.



For further details, on the Investment Programme, see in the [Strategic Report – Investing Activities section](#).



A list of other programmes in the framework of implementing the strategic development plans and the Company's Long-Term Development Programme is provided in [Appendix 1](#).

Long-Term Development Programme

The key objectives of the Company's strategic development are outlined in the Long-Term Development Programme (LDP), which was approved¹ in 2014.

The Programme is consistent with the targets and provisions of the Development Strategy for the Electrical Grid Complex of the Russian Federation² and the Methodological Guidelines on the Drafting of Long-Term Development Programmes of the Russian Ministry of Economic Development, approved by the respective federal executive authorities and by the government of the Russian Federation.

The Long-Term Programme takes into consideration any risks that may affect the achievement of FGC's strategic objectives and includes measures for risk minimisation.

An audit, initiated by FGC, was carried out in 2017 in order to monitor the implementation of measures and achievement of objectives set in the Long-Term Development Programme (the findings of which are provided in the audit report on 16 May 2017).

The independent auditor compared the targeted and achieved KPI values in 2016 and analysed the causes of any detected deviations.

In addition to an external audit, FGC also carries out internal monitoring of the implementation of measures determined in the Long-Term Development Programme.

At the present time, the Company is developing a Long-Term Development Programme for the period of 2018–2022 and for the short-term outlook.



QUESTION & ANSWER



Alexander Zaragatsky
First Deputy Chairman of the Management Board, Member of the Management Board

PJSC FGC UES is a strategic joint stock company that is obliged by the State to develop a Long-Term Development Programme according to the template established as of 2014. How has the concept of strategic operation planning been developed at the Company?

The key objectives of the Company's strategic development are provided in the Long-Term Development Programme (LDP) for the period of 2015–2019, which was approved in 2014. The LDP and the strategic objectives that it contains has become the top-level document that all of FGC's other programme documents are coordinated with. The Company is expanding the horizons of strategic planning and is currently developing a new strategic document –

a long-term development programme for 2018–2022 and the short-term outlook. Within, FGC establishes new strategic objectives that have been formed by taking into account analysis of the implementation of the LDP for the past 3 years, the changing socioeconomic and market situation, as well as the shareholders and management's viewpoints in terms of the Company's further development paths.

At present, the government of the Russian Federation is paying special attention to the disposal of non-core assets by companies of which the State is a shareholder. Tell us about the results that FGC achieved in this term in 2016.

PJSC FGC UES has been taking actions to identify and dispose of non-core assets since 2012. In 2016, the programme for the disposal of non-core assets was updated based on the directives of the Russian government and in accordance with the guidelines on the identification and disposal of non-core assets developed by the Ministry of Economic Development and the Federal Property Management Agency. Registers of non-core assets are modified and approved by the Board of Directors of PJSC FGC UES annually.

In 2016, the approved Business Plan of PJSC FGC UES for 2016 was achieved, in terms of the management of non-core assets, as follows:

- in terms of revenue – approximately 95% of the approved business plan (some RUB 1.9 billion);
- in terms of profit – approximately 104% of the approved business plan.

¹ Approved by the resolution of the Board of Directors, minutes No. 243, on 22 December 2014.

² Approved by Russian Federation Government Resolution No. 511-r on 3 April 2013.

Strategic Priorities and Objectives



Reliability of Electricity Supply to Consumers

Strategic Objective

To maintain a high reliability level of electric power transmission and grid safety, and to reduce the undersupply of electric power

KPI

Absence of any increase in major accidents

Achieving the required reliability level of services provided

Absence of any increase in the number injured in accidents



For further details on KPIs, see the Strategic Report – Market Review, Strategy and Key Performance Indicators section

2016 Results

The specific accident rate decreased by 1.3%

The undersupply of electricity to consumers decreased by 20% compared to 2015 (according to accident investigation data)

The duration of the suspension of electric power supply to consumers was reduced

Scheduled repair and maintenance measures were fully accomplished

Plans

Reduction in the share of overage equipment is provided as a result of implementing renovation projects, modernising and the technical upgrade of fixed assets as part of the Investment Programme of PJSC FGC UES.

Development of an effective system of operation management for UNEG that provides improvement in the observability of the electrical grid facilities

Risks Impacting the Achievement of Objectives

Operational and technological risks

Environmental risks

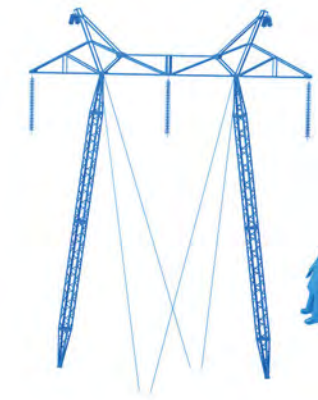
Risks related to the geographical characteristics of a country or a region, including the increased risk of natural disasters, and the possible termination of transport communication

Relevance Assessment by the Stakeholders¹

Relevance assessment: **High**
Assessment of the Company's performance in the priority area: **Positive in all aspects – 89%**



For further details on reliability improvement, see the Strategic Report – Operating Performance Results section



Development and Functionality of UNEG to Meet the Needs of the National Economy and Population

Strategic Objective

1. To implement the Investment Programme in the context of tariff restrictions with a reduction of unit investment costs by 30% by 2017 as compared to 2012

2. To ensure the implementation of investment projects that are of national significance in due time

3. To ensure adherence to the principles of technical and economic expediency when decisions are taken on the scheme of backbone grid development

KPI

Reduction of the unit investment costs

Accomplishment of the facility commissioning schedule

Meeting the deadlines for technological connections

2016 Results

The unit investment costs were reduced by 30% compared to 2012.

Facility commissioning schedule was accomplished

Investment projects of national significance were implemented according to the established schedule

Volumes of constructing new and increasing the capacity of existing electrical grid facilities were reduced

Plans

Enhancing control over the planning and business process of investment projects

Carrying out a price and technological audit of large investment projects with costs of above RUB 1.5 billion

Risks Impacting the Achievement of Objectives

Investment risks

Financial risks

Risks related to federal regulation of tariffs

Relevance Assessment by the Stakeholders

Relevance assessment: **High**
Assessment of the Company's performance in the priority area: **Positive in all aspects – 74%**




For further details on risks, see the Strategic Report – Risk Management section and Appendix 1 hereto



For further details on UNEG development, see the Strategic Report – Investing Activities section



¹ Hereinafter, the relevance assessment is determined on the basis of the stakeholders' questionnaire (including investors, analysts, customers, consumers).

Strategic Objective	KPI	2016 Results	Plans	Risks Impacting the Achievement of Objectives	Relevance Assessment by the Stakeholders
<p>4. To develop a programme of phased consolidation for electrical grid facilities that are part of the UNEG and meet its eligibility criteria, including the signing of agreements with other owners of UNEG facilities on the procedures of using, acquiring and/or the lease of such facilities</p> <p>5. To optimise the utilisation of the existing electrical grid's capacities</p>		<p>Reduction of the total cost of implementing activities for S&DP¹ 2016-2022 was 28% when compared to S&DP 2015-2021 (RUB 509.6 billion vs. RUB 706.2 billion)</p>	<p>Approved modification of the Investment Programme for 2016-2020 was optimised by taking into account the balance of the need to improve operational reliability of the backbone electrical grid system and the need to accomplish the construction of electrical grid facilities that had started in earlier periods and the possibility to provide financing</p>	<p>Risks related to the political and economic situation of the country and region</p>	



Economic Efficiency and Financial Sustainability

Strategic Objective	KPI	2016 Results	Plans	Risks Impacting the Achievement of Objectives	Relevance Assessment by the Stakeholders
<p>1. To integrate an economic model of technological connection based on a balance of interests and equitable risk sharing between the applicant and the backbone grid company</p>	<p>Meeting the deadlines for technological connections</p>	<p>The quality level of technological connection to the grid provided is maintained stable and high: 2015 – 1.0236 2016 – 1.0252².</p>	<p>Implementation of the project for the increase of labour productivity of industrial operation personnel:</p> <ul style="list-style-type: none"> – identification and reduction of industrial personnel work time losses; – consolidation of business units, and expansion of service zones; – optimisation of the personnel workload; – increase in the quality of repair work planning; – implementation of standard schemes of service. 	<p>Financial risks Investment risks Operational and technological risks Technological connection risks Risk of not implementing the Import substitution programme</p>	<p>Relevance assessment: High (for the investors and analysts) Moderate (for the customers and consumers) Assessment of the Company's performance in the priority area: Positive in all aspects – 81%</p>
<p>2. To reduce unit operating expenses by 30% compared to 2012's baseline by 2017 while maintaining reliability and avoiding an increase of costs in the upcoming periods</p>	<p>Reduction of unit (operation) costs Labour productivity improvement</p>	<p>The unit operating expenses reduced by 46% compared to 2012 The comparative analysis of PMES operation costs was accomplished A project for increasing the labour productivity of industrial operation personnel was started The target values of the import substitution programme were fully met</p>	<p>Carrying out comparative analysis (benchmarking) of operation costs between the PMES aimed at the identification of cost reduction potential; Development of software and hardware systems to decide on the impact (in terms of M&R and renovation) on electrical grid facilities when taking into account their technical condition and relevance index while using modern diagnostics and data processing methods</p>		
<p>3. To maintain the Company's credit rating at the level of the sovereign credit rating</p>		<p>The Company's credit rating was maintained during 2016 at the same level (BBB-) and not lower than the sovereign rating</p>			



For further details on financial performance results, see the [Strategic Report – Analysis of the Financial Performance Results section](#)

¹ S&DP – the Scheme and Development Programme for the UES of Russia developed in cooperation with the System operator.

² Indicators are given according to the statements approved by PJSC Rosseti

Sustainable Development Strategy

The key principle for setting objectives in the area of sustainable development and social responsibility is observing the balance between economic expediency and solving social and environmental issues. Special attention is paid to aspects that are top priority for the Company's stakeholders.

PJSC FGC UES has set the following strategic priorities in the area of sustainable development:

- Development of procedures and practices for the synchronisation of the plans of the stakeholders;
- Import substitution in order to reduce political and financial risks;
- The introduction of innovations and new technology with an assessment of their long-term economic efficiency;

- The creation of a talent pool with a competency level corresponding to energy sector development trends;
- Establishment of responsible personnel management practices;
- Improvement of the performance of the electrical grid's energy efficiency;
- The introduction of environment protection activities aimed at minimising the impact on the environment;
- The fair distribution of created economic value and the integration of the social responsibility strategy across all operation areas.

The Company's activity in the area of sustainable development enables us to define and adjust the Company's strategic priorities, targets and objectives more accurately and to improve the effectiveness of achieving our set targets.

Corporate Governance Strategy

The Company is constantly enhancing its Corporate Governance System and considers the effective functioning of its Corporate Governance System as the foundation of Company's reliable and profitable operation.

PJSC FGC UES has set the following strategic objectives in this area:

- Assessment of the corporate governance of the subsidiaries by applying self-evaluation methods that

have been approved by the Company's Management Board;

- Development of enhancement plans for the subsidiaries' corporate governance, including the development of standard internal documentation on corporate governance issues for the subsidiaries;
- An update of the Company's documentation in the area of corporate governance as a result of the analysis carried out in 2016, as well as in relation to changes in the Russian Federation's legislation.

Key Performance Indicators (KPI)

In order to achieve strategic objectives, there is an end-to-end multilevel system of key performance indicators available at PJSC FGC UES: the Company level (senior management KPIs), the level of the executive office of the Company, and the level of PJSC FGC UES subsidiaries. The KPIs of each management level are set at the superior management level, which allows for the implementation of an end-to-end control procedure.

In 2016, the quarterly and annual bonus system continued to function at the Company based on a methodology of calculating and evaluating the achievement of quarterly and annual KPIs for the senior management of PJSC FGC UES and was approved by the Board of Directors¹.

Key changes made to the senior management KPI system in 2016, compared to the previous year, include the following:

- In accordance with the Directives of the Russian Government No. 2303p-P13 on 16 April 2015, No. 2073p-P13 on 29 March 2016 and No. 4750p-P13 on 4 July 2016, the Resolution of the Board of Directors

included a condition for annual bonuses into the annual KPIs – the achievement of the objective on the reduction of operating expenses (costs).

- In accordance with the Directive of the Russian Government No. 1472p-P13 on 3 March 2016, the Resolution of the Board of Directors included an indicator for the efficiency of innovation activity into annual the KPIs.
- In pursuance of the Russian Government Resolution No. 1352 on 11 December 2014 "On the specific aspects of the participation of small and medium-sized enterprises in procurement of goods, work, services by certain types of legal entities", the annual KPIs included the indicator the share of procurement from small and medium-sized enterprises. In 2016, this indicator was indicative and was not part of the bonus system for the Company's senior management.
- An integrated quarterly indicator for financial stability and a liquidity indicator, instead of financial stability

indicator for the financial leverage ratio, were introduced.

- The target values of the number of indicators were increased: the reduction of unit investment costs, the electricity loss level and the improvement of labour productivity.

In order to cascade the key performance indicators of the PJSC FGC UES senior management that were

set by the Company's Board of Directors from the the subordinate management levels and to motivate deputies of the Chairman of the Management Board, Executive Office directors, and the heads of the structural units of the Executive Office and branches of PJSC FGC UES, the Methodology for KPI calculation and the target achievement evaluation for branch heads, the heads of the Executive Office and subdivisions of the PJSC FGC UES branches was approved².

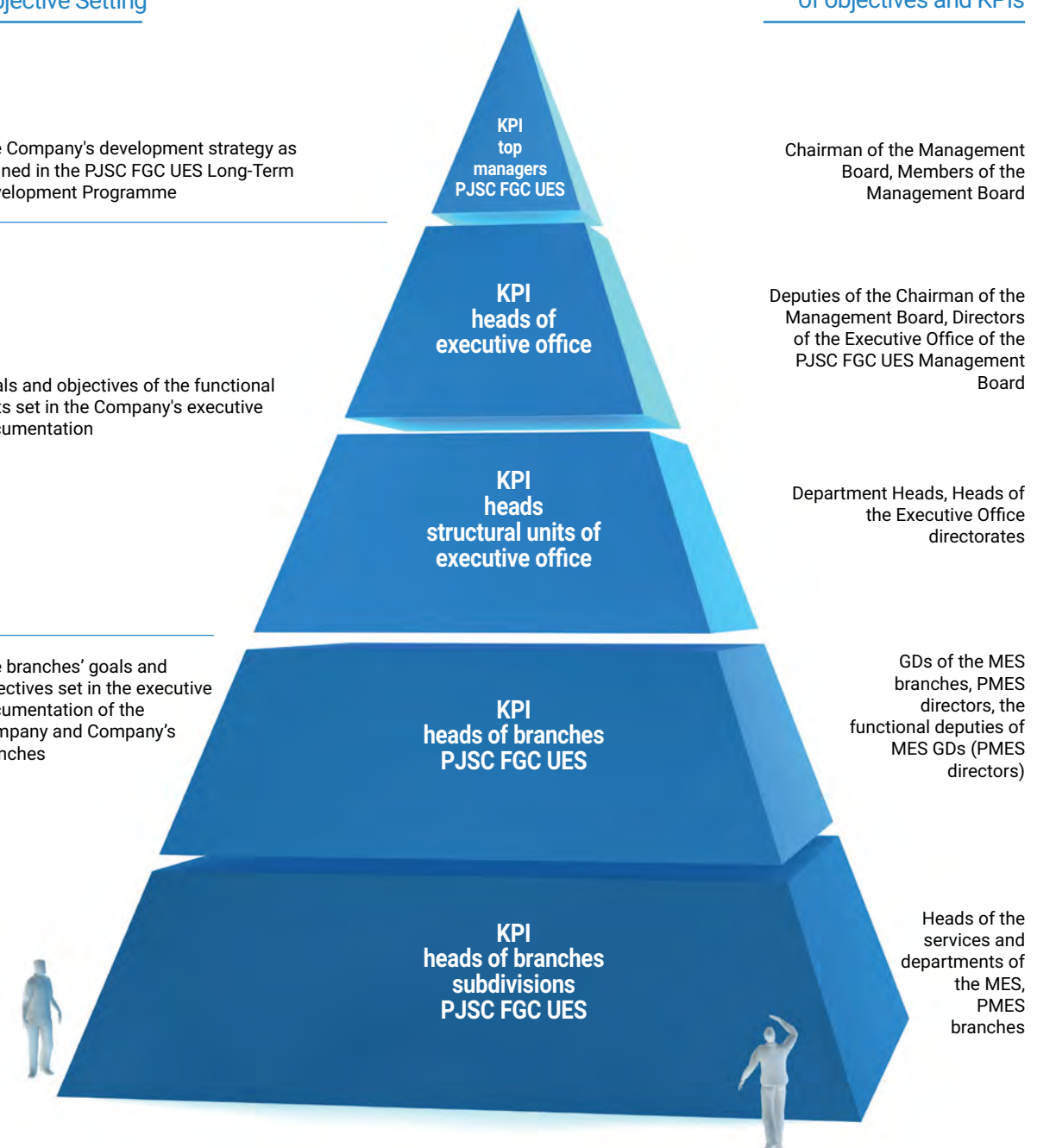
Cascading PJSC FGC UES KPIs from the Senior Management Down to Subordinate Management Levels

Objective Setting

The Company's development strategy as defined in the PJSC FGC UES Long-Term Development Programme

Goals and objectives of the functional units set in the Company's executive documentation

The branches' goals and objectives set in the executive documentation of the Company and Company's branches



PJSC FGC UES's management is responsible for the achievement of objectives and KPIs

Chairman of the Management Board, Members of the Management Board

Deputies of the Chairman of the Management Board, Directors of the Executive Office of the PJSC FGC UES Management Board

Department Heads, Heads of the Executive Office directorates





GDs of the MES branches, PMES directors, the functional deputies of MES GDs (PMES directors)

Heads of the services and departments of the MES, PMES branches

¹ The Methodology for the calculation of KPI and the achievement evaluation of quarterly objectives for senior management of PJSC FGC UES is approved by the RESOLUTION of the Board of Directors (Minutes No. 325 on 17 June 2016); the Methodology for KPI calculation and the achievement evaluation of annual objectives for senior management of PJSC FGC UES is approved by the Resolution of the Board of Directors (Minutes No. 354 on 9 February 2017).

² The Methodology for KPI calculation and target achievement evaluation of PJSC FGC UES's branch heads was approved by the order of PJSC FGC UES No. 143 on 26 April 2016; the Methodology For KPI calculation and target achievement evaluation of the heads of the Executive Office and subdivisions of PJSC FGC UES branches is approved by the order of PJSC FGC UES No. 145 on 29 April 2016.

Structure of Indicators Linked to the Company's Strategic Objectives, Target and Actual Indicator Values

Strategic Objective	KPI	2015 Actual KPI Values	2016		2017 Target KPI Values
			Target KPI Values	Achievement Evaluation of the KPI (Achieved/Not Achieved)	
Reliability of the electricity supply to consumers 	Absence of increase in major accidents	Q 1, 2, 3, 4 – absence of increase	Absence of increase	Q 1, 2, 3, 4 – achieved	Absence of increase
	Absence of increase in the number injured in accidents	Q 1, 2, 3, 4 – absence of increase	Absence of increase	Q1 – not achieved ¹ ; Q2 – not achieved ² ; Q3, Q4 – achieved;	Absence of increase
	Achieving the required reliability level of the provided services	0.3	≤ 1	Achieved	≤ 1
The Company's governance efficiency 	Reduction of operating expenses (costs)	24.2% (vs. 2012)	≥ 10%	Achieved	≥ 3%
	Reduction of unit investment costs	18.3% (vs. 2012)	≤ 1	Achieved	≤ 1
	Electricity loss level	4.09%	≤ 4.13%	Achieved	4.12%
	Labour productivity improvement	21.5% (vs. 2012)	≥ 3,869 RUB/man-hour	Achieved	≥ 5.90%
Infrastructure development and execution of macro projects 	Accomplishment of the facility commissioning schedule	115.5%	≥ 95%		≥ 90%
	Innovation activity efficiency	–	≥ 90%		≥ 90%
	Share of the procurement from small and medium-sized enterprises	–	≥ 10% for the share of procurement in which only small and medium size businesses participate, and ≥ 18% for the share of procurement from small and medium size businesses (including contracts which are executed by small and medium size businesses as subcontractors/associate contractors)	Achieved	–
Maintenance of financial stability 	Return on invested capital (ROIC)	1.8	≥ of target value, as calculated in accordance with the PJSC FGC UES forecasted indicators, set in accordance with the business plan, developed based on the principles of the consolidated financial reporting (IFRS)	Achieved	–
	Financial leverage ration	Q1 – 0.43; Q2 – 0.46; Q3 – 0.44; Q4 – 0.43	–	–	–
	Total shareholder return (TSR)	28.0%	> MOEX RCI (Regulated Companies Index) change for the reporting period + 0.01 percentage points	Achieved	–
	Financial stability and liquidity indicator	–	Equity/Debt ratio ≥ 0.67 or the value set in the Business Plan and the modified current liquidity ratio (MCLR) ≥ 1 or the value set in the Business Plan	Q1, Q2, Q3, Q4 – achieved;	–
	Consolidated net cash flow	–	–	–	≥ - RUB 8,252 million
	Consolidated earnings from operating activities (EBITDA)	–	–	–	Q1, H1 and 9 months of the reporting period ≥ 0; annual value ≥ 5.3%
	Consolidated net debt/EBITDA	–	–	–	Q1, Q2, Q3, Q4 ≤ 3.0
	Execution of an action plan on the reduction of receivables	–	–	–	≥ 100.0%
Effective engagement with customers	Meeting the deadlines for technological connections	1.0236	≤ 1.1	Achieved	≤ 1.1
	Increase in capacity utilisation of power grid equipment	–	–	–	Achieved

The achieved annual KPI results reflected for 2016 are based on a preliminary evaluation. Comparison of the achieved values of the current year with previous years is not carried out due to changes in the methods for calculating and evaluating the performance of KPIs.

¹ Fatal accident (failure of employees to perform their duties) on March 30, 2016 in FGC branch Sredne-Volzskoye PMES (Act No. 1 on occupational accidents of May 18, 2016).

² Fatal accident (failure of employees to perform their duties) on April 11, 2016 in FGC branch Rostov PMES (Act No. 3 on occupational accidents of May 12, 2016).

15 YEARS TOGETHER with Russia



Backbone electric grids of South (MES South)

FGC BRANCH

SERVICE AREA

11 constituent territories of the Russian Federation in the territory of Southern and North Caucasian federal districts with a population of more than 19 million people.

PERSONNEL

More than 2.3 thousand people

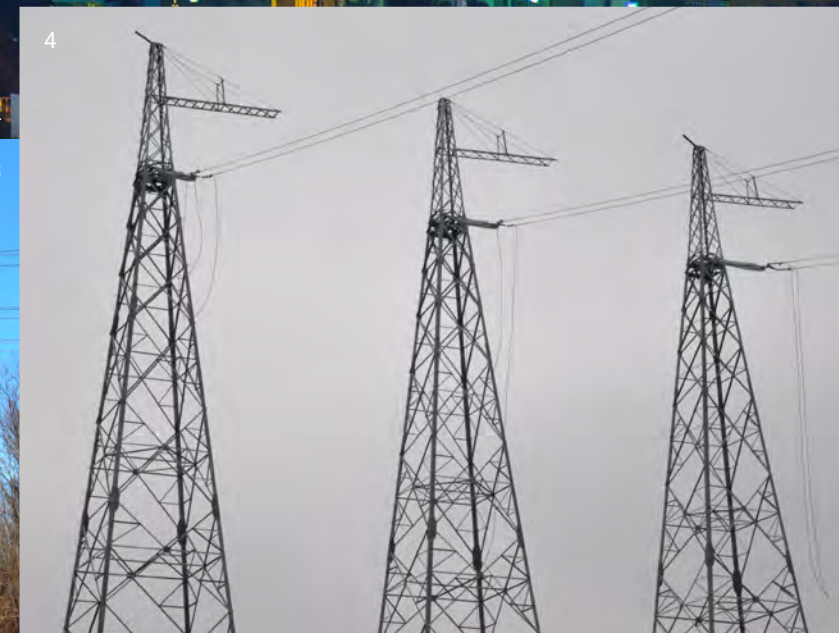
ASSETS¹

HVTL 12.874 thousand km
87 substations, 110-500 kV
229 TSS, 6-10 kV
Capacity — about 29.6 thousand MVA

OPERATIONS

Electricity transmission. The branch provides electricity connection of UES of South with the power systems of the Central Region of Russia, Ukraine, Georgia, Azerbaijan, and through them – electricity transmission to Turkey and Iran.

¹ according to annual performance reports



Key infrastructure projects

2010–2013 Power output of the Adler TPP

Control of power shortages in Sochi;
Second power source for the Olympic Park facilities.

2009–2013 330 kV HVTL, Mozdok-Artem

Improvement of reliability of electricity supply scheme for Dagestan and Severnaya, as well as for large consumers in the region (JSC Hasavjurt Instrument-Making Plant, JSC Dagelektroavtomat, JSC Mozdok Cannery, Khasavyurt railway station, etc.).

500 kV SS, Nevinnomyssk, 500 kV HVTL, Rostov NPS – Nevinnomyssk. 500 kV HVTL, Rostov NPP – Tikhoretsk circuit 2.
Power output of Rostov NPP, Units 2 and 3.

330 kV HVTL, Nalchik–Vladikavkaz-2

Increase of reliability of electricity supply to the North Caucasus power system.

PHOTOS:

- 1, 2 Adler
- 3 500 kV HVTL Rostov NPP – Tikhoretsk circuit 2.
- 4 330 kV HVTL Nalchik–Vladikavkaz-2

Risk Management

The risk management system that exists at the Company makes it possible to identify, assess and effectively manage risks in due time

The Company's General Approach to Risk Management

The stable continuous functioning and development of the Company requires the timely identification, assessment and the effective management of any risks that are a threat to its operation and reputation, to the health of the employees, the environment, as well as property interests of the shareholders and investors.

Advanced Standards of Risk Management

The Risk Management System of PJSC FGC UES was established based on the generally accepted conceptual frameworks for risk management, COSO ERM Enterprise Risk Management – Integrated Framework, developed by the Committee of Sponsoring Organisations of the Treadway Commission.

The FGC Regulations on Risk Management was developed by taking into account advanced Russian and international standards, including:

- Guidelines for drafting regulations on a risk management system that were approved by the government of the Russian Federation;
- Russian Corporate Governance Code;
- Listing Rules of the Moscow Exchange;
- International Standards ISO73:2009, 31000:2010 and 31010:2011 in the area of risk management;
- Risk management standards of the Federation of European Risk Management Associations (FERMA).



For further details on the risk management system and internal control system, see the [Corporate Governance Report/Risk Management, Internal Control and Internal Audit section](#)



The FGC Regulation on the risk management system in force¹ is available on the corporate site at www.fsk-ees.ru/eng/ in the [Investors / Corporate Governance / Corporate Documents section](#)

Relevance and Dynamics of Key Risks

FGC identifies the risks that significantly impact the Company's operation and are subject to priority management.

Level of Risk Relevance

- Critical
- Significant
- Moderate

Dynamics of Risk Relevance in the Reporting Year

- ↑ Growth of risk relevance
- ↓ Reduction of risk relevance
- Risk relevance did not change

Relevance of the Company's Key Risks in 2016 (Risk Map)



- Strategic Priority: Reliability Economic efficiency UNEG development

¹ Approved by the Resolution of the Board of Directors on 16 November 2015 (Minutes No. 291 on 19 November 2015). Updated by the resolution of the Board of Directors on 12 December 2016 (Minutes No. 347 on 13 December 2016).

Risk Assessment and Changes in Risk Relevance in 2015. Risk Assessment and Changes in Risk Relevance in 2016. Link to Strategic Priorities

Industry Risks

Risk Name	2015	2016	Icon
Risks related to the state regulation of tariffs	↑	→	
Technological connection risks	→	→	
Risks related to the increase of overdue and bad debts	→	→	

Country and Regional Risks

Risks related to the political and economic situation of the country and region	2015	2016	Icon
Political factors	→	→	
Economic factors	↑	→	
Risks related to the geographical characteristics of a country or a region, including the increased risk of natural disasters, and the possible termination of transport communication	→	→	

Financial Risks²

Risk of an interest rate change	→	↓	
Risk of an exchange rate change	→	↓	
Inflationary risk	→	↓	

Legal Risks

Risks related to changes in the legislation and regulations in the areas of Company's operation ³	↓	↓	
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Risks related to public legal relations

Reputation Risk

Risk of business reputation loss	→	→	
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Strategic Risk

Strategic Risk	→	→	
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Risks Related to the Company's Operations

Environmental risks	→	→	
Risks relating to failure to comply with the requirements of the environmental legislation of the Russian Federation	→	→	
Risks relating to failure to achieve the target indicators of the Programme for the Implementation of the Environmental Policy.	→	→	
Risk of implementing the Import substitution programme ⁴	↑	↓	
Operational and technological risk	→	→	



For further details on the key risk factors and activity on their management, see the [Appendix 1](#) hereto

10%

There are no Company investments with an expected level of income of more than 10% annually.

RUB 5.15 bln

The total number of claims on unfinished litigations in which FGC acts as a defendant stands at RUB 5.15 billion as of 31 December 2016.

RUB 1.65 bln

The total number of claims on unfinished litigations in which FGC acts as a respondent stands at RUB 1.65 billion as of 31 December 2016.

² A reduction in the relevance of financial risks is due to the fact that the level of inflation in 2016 demonstrated a downward trend and reached 5.4% by the end of the year (the average annual value is 7.1%). The policy of the Russian Government and the Central Bank of Russia that is aimed at reducing inflationary risks allows us to assess this risk as stabilising.

³ The reduction of risk relevance related to changes in legislation was the result of the approval of new regulatory documents by the government of the Russian Federation.

⁴ The reduction of risk relevance for the implementation of Import Substitution Programme is due to the fact that by the end of 2016, manufacturers of electrical equipment have worked out alternative logistics routes and established contacts with the suppliers of the required components from APEC. This generally mitigated the risk of tightening sanctions by the USA and EU countries.

Operating Performance

Electricity Transmission



FGC for the State and the Entire Society: PROVIDES MORE THAN A HALF OF TOTAL ENERGY CONSUMPTION IN RUSSIA

Strategic Priority



Reliability

FGC operates the Unified national (all-Russian) electrical grid (UNEG) and provides the services of electric power transmission via the UNEG to consumers. Such services are considered a monopoly operation and are regulated by the State. Payment for electric power transmission services is a major revenue source for the Company (about 80% of total revenue).

The price of the power transmission services is determined by tariffs that are calculated by the commercial operator of the wholesale electricity market (JSC ATS) and set by the Russian Federal Anti-Monopoly Service (FAS of Russia).

	OBJECTIVE 2016	ACHIEVEMENT 2016	OBJECTIVE 2017
Electric power supply to consumers, million kW-h	527,719	540,540	533,753
Electric power losses in the UNEG, million kW-h	24,756	25,033	24,890

The main consumers of FGC's electric power transmission services are regional distribution companies, retail suppliers and large industrial enterprises.

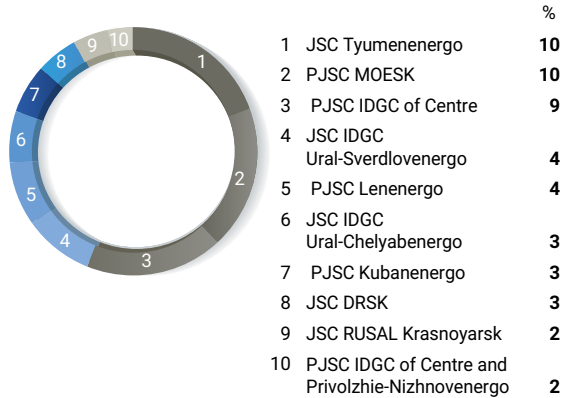


For further information on the tariffs for electric power transmission services, see the Strategic Report/ Analysis of the Financial Performance Results section



For further information on export and import of electric power pursuant to PJSC InterRAO contracts, see the Appendix 1 hereto

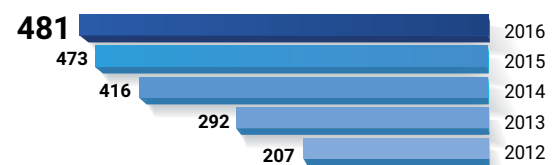
Shares of the Largest Service Consumers in FGC's Sales Revenue from Power Transmission Services in 2016



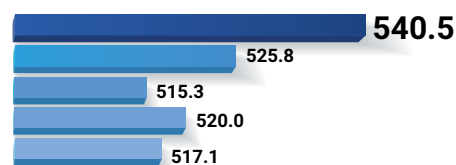
At the end of 2016, the total number of the Company's counterparts in electric power transmission service agreements increased to 481.

In 2016, electric power supply to consumers of the FGC grid increased by 2.8% compared to the previous year and amounted to 540.5 billion kW-h. The long-term indicator dynamics demonstrate a growing trend – a growth of 4.5% for 2012–2016.

Number of the Company's Counterparts in Electric Power Transmission Service Agreements



Electric Power Supply From the UNEG to Consumers, billion kW-h



Strategic Priority



UNEG development

Technological Connection



FGC for Consumers: A CUSTOMER FOCUSED APPROACH

	OBJECTIVE 2016	ACHIEVEMENT 2016	OBJECTIVE 2017
Average level of customer satisfaction with technological connection service, points	1.1	1.0252	1.1

Average level of customer satisfaction with technological connection service, points

QUESTION & ANSWER

Aleksey Molsky

Deputy Chairman of the Management Board, Member of the Management Board



What were FGC's largest projects of connecting electric power generation facilities and power plants to consumers and grids in 2016?

Measures were taken to connect such generation facilities as Huadian-Teninskaya CHP (450 MW); Chelyabinskaya GRES, CCGT-1, CCGT-3 (2x247.5 MW); Zelenchukskaya HPP-PSPP (2x70/82.2 MW) and others were successfully and timely implemented.

A large project in the port of Kozmino was implemented. The contractual obligations of connecting such consumers as PJSC Rosseti IDGC

(110 kV SS Vorsh, SS IndustrPark SOKOL, etc.), JSC Tyumenenergo (110 kV SS Kechimovskaya, 110 kV SS Rosa), FSI Cosmodrome Vostocny directorate (220 kV SS MSDS 2), PJSC NK Rosneft (500 kV SS Svyatogor, 220 kV SS Vektor), the Zvezda shipbuilding and ship repair centre (220 kV SS Zvezda), the CJSC Antipinsky refinery and many others were executed.

What factors will determine the dynamics of the technological connection of consumers to the grids of PJSC FGC UES in the near future?

The key factor that will determine the dynamics of technological connection is bringing to life the forecast of the socioeconomic development of

Russia, which implies the creation of power-intensive production enterprises and the implementation of large infrastructure projects in the regions of Russia.

What possibility does the Company see in terms of improving the quality of its technological connection services?

We are striving to improve the quality of our customer service by providing customers with more convenient and efficient ways of interacting with the Company. There is a new section under development in the technological connection portal that will allow

consumers to apply for technological connection and submit the required documentation (according to the rules of technological connection) in an electronic format confirmed by a qualified digital signature.

Measures to reduce electric power losses for the reporting period as part of the Programme for Energy Saving and Energy Efficiency of PJSC FGC UES were implemented in three key areas:

- optimisation of circuit and mode parameters in the process of operation and control of the electrical grids;
- reduction of electric power consumption for auxiliary supply of the substations;

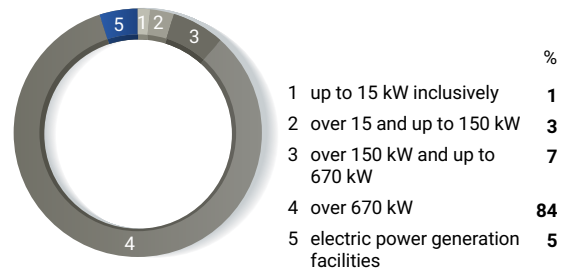
– construction, reconstruction and development of electrical grids, and commissioning of energy-saving equipment (loss reduction has had a concurrent effect).

As a result of implementing the above measures, electric power losses were reduced in 2016 by 58.3 million kW-h.

The Company provides an integrated service of the technological connection of energy receiving devices, power generating facilities and electrical grid facilities to FGC's electrical grids. This service includes the application for technological connection,

the development of technical requirements, the signing of a contract, obtaining permission from the federal body of the state energy supervision for the applicant's facilities, and the issuance of a connection report.

Categories of Consumers of Technological Connection



The payment amount for technological connection is calculated based on the maximum capacity value of connected energy receiving devices while applying the standardised tariff rate established by the FAS of Russia to a corresponding regulation period. The payment amount for technological connection under an individual project is approved separately by the FAS of Russia for each applicant.

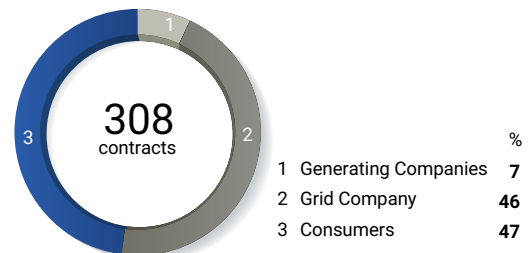
Technological Connection Service Portal

Technological connection service is provided at locations of the PJSC FGC UES branch offices – MES. Via the Technological Connection Service Internet Portal – <http://portaltp.fsk-ees.ru/> – consumers have online access to up-to-date information on the state of FGC's feeding centres, the load level of their equipment, as well as information on the implementation progress of their application for technological connection to the Company's electrical grid.

FGC provides services of technological connection to both new and existing consumers, if they need to modify the parameters of energy facility operation. The Company signs direct contracts with service consumers in all the constituent of the Russian Federation where FGC's grid facilities are located, taking into account the restrictions set by Federal Law No. 35-FZ of March 26, 2003, «On the Electric Power Industry» and the rules of technological connection.

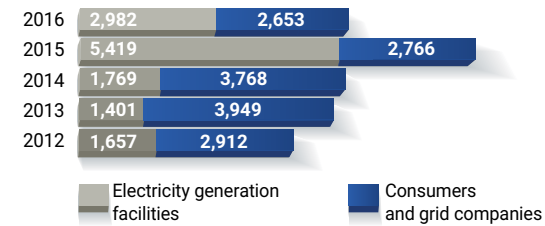
Structure of Consumers of the Company's Technological Connection Services

(According to Contracts Signed in 2016)



In 2016, FGC signed 308 contracts for providing technological connection with total connection capacity of 6.7 GW. The total capacity of technological connections implemented in the reporting year amounted to 5.6 GW.

Dynamics of Connecting the FGC's Consumer Capacities and Electric Power Generation Facilities¹, MW



The significant growth of technological connection in 2015 and its following decline in 2016 is explained by the completion of a number of large-scale technological connection projects at the generating plants of Rosenergoatom in 2015.

OPINION OF THE STAKEHOLDERS According to the Consumer Questionnaire Results

80% are completely satisfied with the Company's activity in terms of technological connection

The most important aspects

- Ensuring the publicity of a contractual relationship with service consumers
- Increasing the transparency of performing technological connection

Aspects that require additional attention

- Ensuring the consideration of service consumers' applications for signing the corresponding contracts within the deadlines and in line with the procedure established by legislation
- Increasing the transparency of performing technological connection

¹ The data of consumer technological connection in 2013 was adjusted by taking into account the re-distribution capacity in the consumer category.

Strategic Priority



Reliability

Increasing the UNEG's Reliability

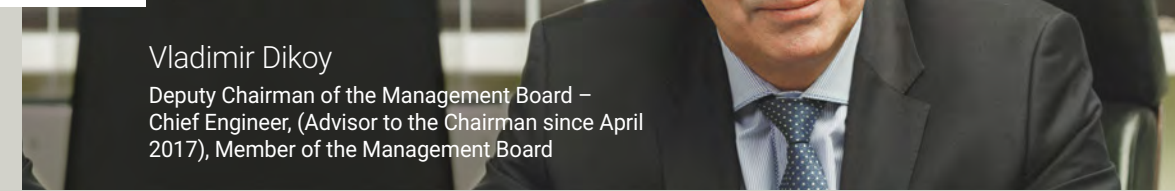


FGC for Consumers: RELIABLE ELECTRIC POWER SUPPLY

OBJECTIVE 2016 | ACHIEVEMENT 2016 | OBJECTIVE 2017

Specific accident rate, units/1000 c.u.	2016	2016	2017
	1.35	1.34	1.34

QUESTION & ANSWER



Vladimir Dikoy

Deputy Chairman of the Management Board – Chief Engineer, (Advisor to the Chairman since April 2017), Member of the Management Board

Have the planned for 2016 measures on increasing grid reliability been accomplished? What are their results?

The planned execution volume for the physical maintenance and repair work of PJSC FGC UES for 2016 for the main spectrum has been accomplished more than 100%. The actual cost for maintenance and repair at the end of 2016 amounted to RUB 10.6 billion;

The share of works performed in-house (without subcontractors) has increased, a growth of labour productivity of repair personnel was ensured, and its workload efficiency was improved.

How successful has the Company been in terms of increasing the reliability and improving the quality of its repair work?

In 2016, we were able to maintain our achieved reliability level, and the number of accidents at the Company's facilities decreased from 1,879 to 1,848 – a 2% decrease compared to the previous year (when taking into account the data of JSC SO UES).

In order to increase quality and decrease cost of repair, centralisation of the procurement of the main range of spare parts and materials was carried out, and the list of parts provided was expanded.

Multilevel preparation of the Company's facilities for thunderstorms, fire hazards, floods and fall-winter

season conditions ensure the reliable operation of the UNEG facilities during specific climatic periods throughout the entire year. The Company obtained a certificate of readiness for the fall-winter season 2016/2017 from the Ministry of Energy of the RF, without any special opinions or special permissions of the commission members. A high level of readiness for emergency recovery work was also ensured. A variety of measures aimed at increasing reliability in regions with high risks of power supply interruption were also accomplished.



For provision on the Unified Technical Policy, see the website at www.fsk-ees.ru in the [About the Company/Technical Policy section](#)

The main technical areas for increasing the reliability and efficiency of the operation of FGC's electrical grid system are set in the Unified Technical Policy that has been in force at the Company since 2013.

The reliability of the Company's grids increases every year. In 2016, thanks to the introduction of new equipment, the improvement of the servicing personnel's skills and expertise and other such

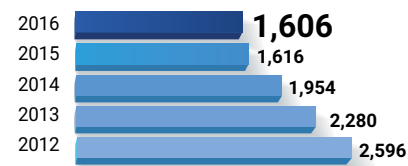
activities, the specific accident rate² at FGC's facilities declined by 1.3%. At the same time, the amount of equipment serviced increased by 0.8%.

The indicator for the undersupply of electric power³ to consumers is currently at a stable low level and shows a downward trend. In 2016, this indicator value decreased to 1,397 MW·h, or by 20%, compared to 2015.

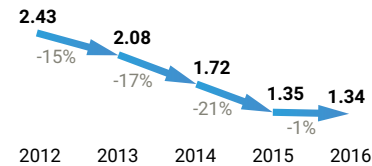
² The specific accident rate is a ratio of the number of accidents to the servicing volume. The servicing volume means the man-hours required for servicing equipment (man/hour).

³ The undersupply of electric power is the volume of electric energy that has not yet been supplied to the consumer because of interruption or restriction of the electric power supply as related to the regular mode disturbance (according to data from accident investigation reports).

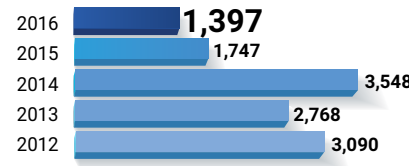
Number of Accidents Dynamics at FGC's Facilities



Specific Accident Rate Dynamics at FGC's Facilities (Number of Accidents per 1,000 Conventional Units)



Dynamics of Power Energy Undersupply by FGC, MW-h (According to Data from Accident Investigation Reports)



Renovation, Modernisation and Technical Upgrade of Fixed Assets

Investment projects for renovation, modernisation and technical upgrade have been included into the adjustment of the PJSC FGC UES Investment Programme for 2016-2020.¹

The renovation, modernisation and technical upgrade projects for 2016-2020 aim to achieve:

- Total commissioning capacity – 11,964 MVA;
- Renovation of 401.96 km of power transmission lines.

Financing for the renovation, modernisation and technical upgrade projects amounts to RUB 117,177 million for the period of 2016–2017.

The commissioning of a 2,627 MVA capacity is planned as part of the renovation, modernisation and technical upgrade projects for 2017, of which the financing will amount to RUB 21.9 billion.

Repair Programme

The Company performs maintenance and repair of its energy facilities in order to keep the equipment of substations and high-voltage lines in good working condition.

In 2016, the Company accomplished its planned activities for repair and maintenance in full.

In 2017, FGC plans to invest around RUB 11 billion into repair works at the grids.

Operational Process Control and Situational Management

Operational process control is a system of measures carried out to ensure the reliable operation of the UNEG's facilities and to comply with operational process modes set by the dispatch centres of the System Operator.

In the framework of the Company's operational process control, situational management tasks are carried out.

Situational management is a system of measures taken in correspondence to a contingency or emergency situation on the electrical grid system via the analysis and assessment of situation occurrence risks and their consequences, followed by taking and implementing the appropriate management decisions.

Operation During Specific Periods

Weather and climatic conditions have a significant impact on the Company's operations. We ensure the preparation of electrical grid equipment, buildings and structures in advance for their operation during specific seasonal periods: the fall-winter season (low temperatures and high load conditions), as well as for floods, fire hazards and thunderstorm periods (natural anomaly conditions).

In 2016, the UNEG operated in the standard mode during the specific periods as well. 46 duty teams, which ensured the facility's reliable operation in the conditions of an emergency or contingency occurrence, operated continuously at the Company. There are 561 standby power supply sources with a total capacity of 167.3 MW at the Company's disposal.

More information on the Company's operation during special periods in 2016 is available in the [Appendix 1](#) hereto

Information on risks related to the geographical specifics of the country or region, including the risk of the increased hazard of natural disasters, is available in the [Strategic Report/Risk Management](#) section

More information on the IT systems operating at the Company is available in the [Appendix 1](#) hereto

Information on operational and technological risks, including risks related to wear and tear and the obsolescence of the electrical grid's assets, is available in the [Strategic Report/Risk Management](#) section

More information on the implementation results of the 2016 repair programme is available in the [Appendix 1](#) hereto

More information on the activities of operational process control and situational management, as well as the dynamics of efficiency indicators for the control of operational process and situational management, is available in the [Appendix 1](#) hereto

On 10 November 2016, the commission of the Ministry of Russia issued a certificate of readiness to the Company for operation during the fall-winter season of 2016-2017.

Development of Communication Networks and IT systems



The operational reliability of the electrical grid infrastructure, the innovative development of the UNEG and of FGC's efficient business control all require the use of advanced telecommunication and information technologies.

The automatic process control system (APCS), the corporate information management system (CIMS), and the telecommunication infrastructure of the Energy System's Unified Process Communications Network (ESUPCN), based on advanced information technologies, are being created and developed at the Company.

Development of the Energy System's Unified Process Communications Network

The telecommunication infrastructure that the Company has created enables the effective operational control and dispatch processes of electric power transmission and distribution.

The general scheme of the creation and development of the Energy System's Unified Process Communications Network (ESUPCN)² plans for the digitalisation (the

transition from an analogue to a digital communication method) and the intelligence of the network that is achieved via its wide introduction to electrical grid facilities of modern equipment and a new generation of communication network technologies.

ESUPCN Structural Component	Development Priority	2016 Results	Share of Domestic Equipment Use
Fibre-optical communication network	Development of fibre-optical communication lines (FOCL). FOCL inputs will allow us to improve the efficiency of process control for electrical grid facilities and the reliability of the power supply to consumers in the regions where respective projects are implemented.	In 2016, more than 3.7 thousand km of FOCL were built along power transmission lines, including the areas of MES East, MES Siberia, MES Volga, and the MES South branches. Total length of FOCL, th. km 2016 70.5 2015 66.8 2014 63.1	36%* * Including cable communication lines.
Basis for the technological communication network using fibre-optical cables placed on overhead power transmission lines.	FGC utilises resources from the leading telecommunication operators on the basis of long-term mutual lease relations.		

¹ Adjustment of the PJSC FGC UES Investment Programme for 2016-2017 is approved by the directive of the Ministry of Energy of Russia No. 1432 as of 28 December 2016.

² Approved by the PJSC FGC UES Board of Directors on 14 December 2015 (Minutes No. 1352 on 15 December 2015).

ESUPCN Structural Component	Development Priority	2016 Results	Share of Domestic Equipment Use
Carrier network along overhead lines Special types of communication where phase conductors and overhead power transmission line cables are used as a signal-transmitting medium.	Modernisation and decommissioning of carrier network equipment because of the commissioning of FOCL.	Dynamics of input of carrier network along overhead lines, pcs. 2016: 212 2015: 393 2014: 367	78%
Telephone network Built on a point-to-point principle and providing interaction with the technological network of the System Operator and other participants of the wholesale electricity market.	Digitalisation of the network, the introduction of VoIP – voice (speech) transmission – over a packet switching network (IP networks) in addition to the conventional services.	47 digital PABX, as well as systems for recording the operation of personnel communication, DECT wireless communications systems, as well as loudspeaker and radio searching communications systems, were introduced in 2016. Dynamics of input of telephone network, units 2016: 47 2015: 50 2014: 113	52%

Investment Activities

The Company performs the construction of new and the reconstruction of existing electrical grid facilities. We pay special attention to the modernisation and

increase of the operational reliability of the unified power system in order to ensure an uninterrupted power supply to our consumers.

Strategic Priority

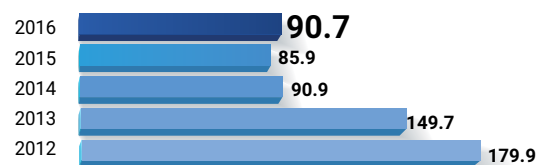


Investments into developing the electrical grid infrastructure are the foundation of a reliable power supply and one of the important factors for economic growth

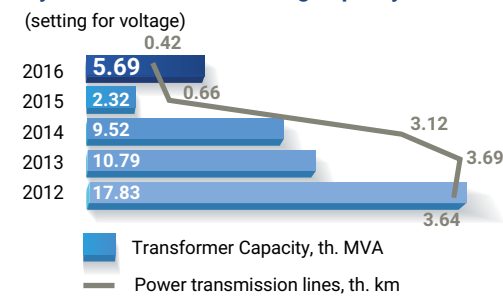
Investment Programme Accomplishment for 2016

	2016 ACHIEVEMENT	2017 OBJECTIVE
Commissioning value, RUB billion	103.7	137.3
Commissioning capacity, MVA	8,772	13,226
Commissioning of power transmission lines, km	827	2,303

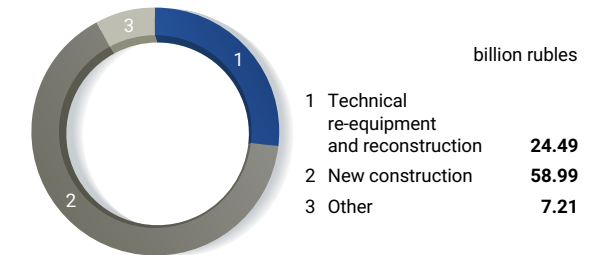
Dynamics of the amount of investment financing, billion rubles



Dynamics of Commissioning Capacity



The structure of capital investments (for financing) in 2016



OPINION OF THE STAKEHOLDERS

According to the Consumer and Investor Questionnaire

74% are completely satisfied with the Company's operation in the investment activity area

The most important aspects

- transparency of the formation of the Investment Programme
- reduction of the unit investment costs

Aspects that require additional attention

- transparency of the formation of the Investment Programme

QUESTION & ANSWER



Roman Filimonov
First Deputy Chairman of the Management Board,
Member of the Management Board

How does the Company's management increase its value for shareholders (based on examples of implementing the efficiency of its investment projects)?

We strive to make investments that will increase the Company's competitiveness and provide growth in the return on capital, which in turn raises the value of FGC's shares. These objectives require the search for and the selection of efficient investment solutions (projects).

In 2016, the Board of Directors approved the regulation on investing and operating efficiency and cost reduction¹, including a system of measures for increasing the efficiency of investing activities.

This system of measures is aimed at ensuring the maximum efficiency of the pricing policy, which requires a reduction of per unit indicators in construction, the development of standard design solutions, and enhancing the project control system in order to achieve the set objectives by investing less time and finances.

Achieving good levels of economic indicators is often connected to the optimisation of financing sources.

Currently, we are counter balancing the structure of the sources for the Investment Programme's financing with PJSC FGC UES's own funds, bonded loans, loans from organisations and federal funds. The breakthrough in this aspect was achieved thanks to the Russian Government's Decree No. 1265 on 30 November 2016, which was developed in close cooperation with PJSC FGC UES and allows us to ensure an alternative source of financing for the project of power infrastructure development in area of Baikal-Amur and the Trans-Siberian railways without the attraction of financing from the National Wealth Fund (NWF). Additional funds generated from instalment payments for connection may be fully directed to the financing of this project (thus budget support in form of NWF financing will not be required and PJSC FGC UES's financial situation will not worsen).

¹ Minutes No. 312 of the Board of Directors on 28 March 2016.

15 YEARS TOGETHER with Russia

Backbone electric grids of the Volga Region (MES Volga)

FGC BRANCH

SERVICE AREA

8 constituent territories of the Russian Federation in the Middle Volga Region and the Nizhny Novgorod Region with a population over 17 million people.

PERSONNEL

About 2 thousand people

ASSETS¹

HVTL 12 thousand km
87 substations, 220-500 kV
Capacity – about 32 thousand MVA

OPERATIONS

Electricity transmission. The branch provides electricity connection between UES of Volga and power systems of the Central Region of Russia and the Urals.

¹ according to annual performance reports



Key infrastructure projects

2008–2016 Commissioning of 500 kV SS, Kuibyshevskaya, (Samara Region) upon comprehensive reconstruction

Energy supply to more than 70% of the region's area, including the region's major industrial centres: Samara, Novokuibyshevsk, and Chapayevsk. The substation is involved in the power output scheme of the most important generation facilities of the Volga Region: Balakovo NPP, Zhigulevskaya HPP, Zainskaya SDPP.

2011–2015 Construction and commissioning of 500 kV HVTL, Krasnoarmeyskaya – Gazovaya

Improvement of reliability of communications between the Ural and the Middle Volga power systems and ensuring the capacity output of the Balakovo NPP; Electricity supply to railway facilities, the towns of Mednogorsk and Kuvandyk, as well as to large industrial enterprises in the region: Mednogorsk copper-sulphur plant, Ural Steel plant, gas production enterprises of JSC Gazprom.

To ensure the technological connection of the integrated enterprise Rusvinyll LLC engaged in PVC production (joint venture of Sibur and Belgian SolVin).

Construction of 220 kV switching substation (SSS), Zeletsino, reconstruction of OSG 220 kV at Kud'ma substation, installation of new relay protection and automatic equipment at 500 kV Nizhny Novgorod and 220 kV Kud'ma substations, construction of 220 kV power transmission lines, Nizhny Novgorod-Zeletsino and Zeletsino-Kud'ma.

2013 Provision of technological connection of power plants of metallurgical production enterprise, Severstal – Long-rolling plant Balakovo

An enterprise with the capacity of 1 million tonnes of rolled metal per year ensured some 800 jobs for the inhabitants of Saratov Region.

PHOTOS:

- 1 500 kV SS Krasnoarmeyskaya
- 2 Nizhny Novgorod
- 3 500 kV HVTL, Krasnoarmeyskaya – Gazovaya
- 4 500 kV SS, Kuibyshevskaya

Long-Term Investment Programme

The Company's Investment Programme for the period of 2016-2020 was approved in 2015¹ and was adjusted in 2016².

Key Objectives of FGC's Investment Programme

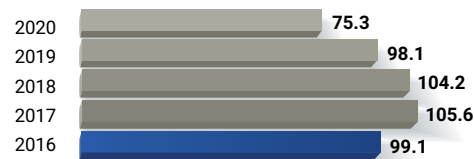
- Maintenance of the operational reliability of Unified Energy System that is necessary for the uninterrupted power supply to consumers
- Ensuring power supply to facilities of significant nation-wide importance
- Providing quality and the availability of power transmission service and connection for consumers to electrical grids
- Improvement of the operational efficiency of backbone grids via cost reduction and the implementation of energy efficiency programmes
- Synchronisation of development programmes with generation facilities and distribution networks

- Development of an effective system for the UNEG's operational management, and the improvement of observability of electrical grid facilities
- Providing uninterrupted power supply while maintaining the separate operation of UES of Russia and the UPS of Ukraine
- Providing an external power supply to the facilities of the Power of Siberia of PJSC Gazprom

The previously approved Investment Programme for 2016-2020 was adjusted in terms of financing for the facilities aimed at the development of electrical grid infrastructure in the territory of the Eastern Siberia and the Far East of Russia, including financing related to the expansion of the traffic capacity of Baikal-Amur and the Trans-Siberian railways. The amount of financing for the projects that provide an external power supply to the facilities of PJSC Gazprom in the framework of constructing gas, transporting gas and gas processing capacities in the Far Eastern federal district (the Power of Siberia system project) has also changed.

Key Parameters of the Approved Adjustment to the PJSC FGC UES Investment Programme for the 2016–2020 Period

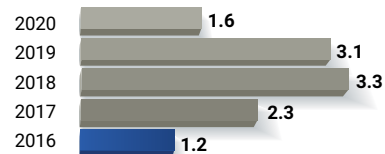
Planned amount of financing, RUB billion



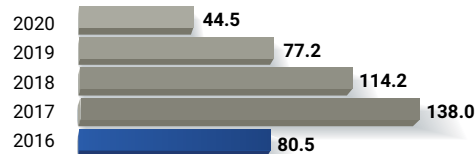
Planned commissioning capacity, thousand MVA



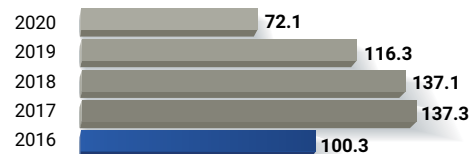
Planned commissioning transmission lines, thousand km



The planned volume of capital investments development (without the VAT), RUB billion



The planned commissioning of fixed assets of grid capacity in 2016-2020, RUB billion



The Company's Investment Programme requires the commissioning of the Company's fixed assets of 44.7 thousand MVA of capacity and 11.4 thousand km of power transmission lines in 2016-2020. The total value planned for investment is RUB 482.28 billion. The financing of the Investment Programme for this period is planned with PJSC FGC UES's own funds, bonded loans, in addition to loans from organisations and federal funds. The Programme provides the even distribution of investment costs over a five-year period, which will allow the Company to keep balanced structure of financing sources.

Key Investment Projects for the 2016–2020 Period

Key Investment Projects

Socio-Economic Significance

Development of power infrastructure for the ESPO – I, II oil transporting system

Design and exploration work on the facilities of external power supply to eight booster stations was performed in order to ensure the pumping of oil through the ESPO-I pipeline system of up to 80 million tonnes a year, which will be performed in the framework of inter-state agreements with the People's Republic of China.

Compensatory measures for the separate operation of the UES of Russia and the IPS of Ukraine

To ensure a reliable power supply to the Northwest part of the Rostov energy system, the installation of a 125 MVA autotransformer on the Pogorelovo substation and the construction of a power transmission line between the cities of Shakhty and Donetsk (in the Rostov Oblast), with length of 80 km, was performed. Commissioning of the facilities was completed in 2016.

Improvement of the availability of the Krasnodar Territory's electrical grid infrastructure

To ensure the possibility of technological connection for consumers in the city of Krasnodar, including a large-scale housing construction project, construction of the Vostochnaya Promzona substation was provided. The commissioning of 560 MVA capacity and 16 km of overhead lines has been planned for 2017. PJSC FGC UES is also implementing, in the framework of the measures of technological connection of JSC Oboronenergo, a project for the construction of 220 kV SS Novo-Labinskaya with 220 kV OHL connections, with a capacity of 250 MVA, to be commissioned in 2017.

Providing the capacity delivery of generating facilities

Work is being performed to implement the capacity delivery circuits of Novovoronezhskaya NPP-2, Leningradskaya NPP-2, Rostovskaya NPP, Nizhnebureyskaya HPP, Zagorskaya PSPP-2, and Zaramagskaya HPP. To ensure station capacity delivery, the commissioning of 901.6 km of lines, as well as 1,002 MVA of transformer and 560 MVA of reactor capacities, has been planned for the period of 2017–2022.

Developing energy infrastructure in the area of Baikal-Amur and the Trans-Siberian railways

In order to ensure the potential loads of the Eastern ground of JSC RZD, PJSC FGC UES is implementing the Integrated investment project – a power infrastructure development in the area of Baikal-Amur and the Trans-Siberian railways. The project will allow the provision of facilities to the Eastern ground of JSC RZD with infrastructure. There will be positive effect achieved for the large potential consumers (PJSC Transneft – MPL ESPO-1, PJSC Polus, the LLC Baikal mining company – and the Udokan deposit ore processing plant) and for existing consumers in the territories of the project's implementation (improvement of the power supply thanks to the commissioning of new and the reconstruction of existing transformer capacities and OHL).

Developing an electric power infrastructure for the gas transportation system – the Power of Siberia

The applications for the technological connection of a number of compressor stations for Chayadinsky OGCF's crude oil delivery and the acceptance point for crude handling and metering, as well as for the HPP Power of Siberia, were accepted in order to provide energy supply to the gas extracting centres of the Republic of Sakha (Yakutia) and the Irkutsk Oblast, as well as for the provision of a gas transportation through these stations to Khabarovsk, Vladivostok and the People's Republic of China. The technical specifications were developed and coordinated with JSC SO UES and the design requirements and specifications were approved; the bidding procedures for design and exploration works were started based on these applications.



For further details on the main parameters of PJSC FGC UES's key investment projects, see the [Appendix 1](#) hereto

¹ Order of the Ministry of Energy of Russia No. 980 on 18 December 2015.
² Order of the Ministry of Energy of Russia No. 1432 on 28 December 2016.

QUESTION & ANSWER



Dmitry Parishkura
Director of Investments – Head of the Investment Planning and Reporting Department

What areas will the Company's Investment Programme focus on after 2020? What will be its average annual monetary value?

The Investment Programme of PJSC FGC UES (IPR) is developed in strict compliance with the Russian Government Resolution No. 977, which defines the IPR development period as 2016-2020. Currently, the investment volumes and sources of financing for 2021 and onwards have not been approved, and consequently, the volume and sources for financing the IPR titles have not been defined for this period.

In spite of this, we expect that key areas for the IPR after 2020 to be:

- Ensuring the reliability and safety of electric power and capacity transmission,

- Executing of the Company's obligations in terms of technological connection of consumers and generation facilities to grids
- Implementing schemes and programmes for the development of the UNEG – the increasing the subjects of reliability and developing the backbone grids,
- Implementing programmes that are of significance to the State (according to the instructions of the President the RF, the Russian Government, and the federal executive authorities).

Innovative Development



Innovative development is a driving force for the improvement of the Company's efficiency and the advancement of industrial science

We aim to increase the reliability, quality and efficiency of the power supply to our consumers by renovating existing electrical grids and by following the innovative development programme. The Company's innovative activities also contribute to the development of modern industrial science and education as well.

The Company is focused on the creation of an extensive infrastructure partnership, built on a model of open innovation and aimed at engagement with development institutions, research institutes, higher

education institutions, small and medium-sized businesses, foundations, and foreign partners. The application of the principles of this concept allows each entity to leverage the strengths of their counterparts, as well as to select the best projects and technologies in the external innovation marketplace, when the most risky stages of the innovation process (fundamental research, early product and service development stages, etc.) are implemented by external organisations.

Innovative Development Programme

The Company's innovation priorities are defined in the PJSC FGC UES Innovative Development Programme for

2016-2020 with an outlook for 2025¹.

Strategic Priority



Reliability



The PJSC FGC UES Innovative Development Programme is available on the Company website at www.fsk-ees.ru in the [Innovations/Innovative Development/Innovative Development Programme section](#)

Key Objectives of FGC's Innovative Development Programme

- Achieving global average indicators of the reliability, safety, quality, efficiency and availability of the energy supply to consumers thanks to the introduction of new equipment, technology and practices
- Improving the Company's customer focus via the enhancement of existing and developing new services, including high-tech services
- Developing and introducing (rolling out) innovative equipment and practices
- Transitioning to the adopter model of innovative solutions and technologies offered by the market, including through the development of open innovation tools
- Improving interaction with the subjects of the innovative industry ecosystem
- Enhancing of the innovative activity of the management system
- Creating a talent pool with advanced competencies for innovative development
- Creating conditions for the development of promising scientific research, process operations and advanced production in the territory of the Russian Federation



For further details on the priority areas of PJSC FGC UES's innovative development, see the [Appendix 1](#) hereto

By taking into account the performed analysis on FGC's technological and innovative level, as well as the assessment of the market and technology development forecasts, the Innovative Development Programme has set the following priority (base) areas for the Company's innovative development:

- Digital substation;
- Energy efficiency and loss reduction;
- Digital designing;
- The quality of electric power;
- Reliability and management of assets;
- Composite materials and superconductivity;
- Remote control and safety.

QUESTION & ANSWER



Pavel Korsunov
Deputy Chairman of the Management Board

The PJSC FGC UES Innovative Development Programme for 2016-2020, with an outlook for 2025, was approved at the Company in 2016. What are the specifics of this Programme?

The PJSC FGC UES Innovative Development Programme for 2016-2020 is developed on the basis of a number of programmes and strategic, regulating and legislative, documents including the new governing documents on the enhancement of innovative activities for companies of which the State is a shareholder.

The Programme provides the details for the goals, objectives and areas of the Company's innovative development. In order to improve the quality of planning and the implementation of R&D activity, PJSC FGC UES uses the project management principle when

developing the Programme with maximum focus on the most advanced and critical areas for innovative activity. At the same time deadlines and the desired outcomes of the Programme's projects and activities are set, and the qualitative and quantitative impacts of the implementation of key projects and activities are assessed. The new Programme requires further updates of the «open innovation» tools for working with partners in the area FGC's innovative development.

What processes of the Company's operation do the activities of the Innovative Development Programme cover?

The Innovative Development Programme includes a system of measures that determine all the life cycle stages of technology and product innovation (general development, testing of new products and processes; the regulatory and technical provision of implementing the projects, the development of new services, etc.), as well as organisational and process innovations

(improvement of the business processes of design, construction, operation; management of intangible assets; the monetisation of new technologies; development of innovative infrastructure, including interaction with higher education institutions and development institutions).

¹ Approved on 27 June 2016 by the resolution of the Board of Directors of PJSC FGC UES, Minutes No. 328 on 28 June 2016.

R&D Programme

R&D investments, RUB million

OBJECTIVE 2016	ACHIEVEMENT 2016	GOAL 2017
593.93	414.4	656.3

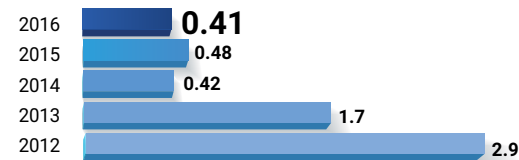
The research and development programme for the experimental development and technology works (R&D) of PJSC FGC UES for 2015-2017¹ is one of FGC's tools for the implementation of the Innovative Development Programme.

In order to comply with the Investment Programme, the Company spent RUB 414.4 million on implementing the R&D programme in 2016, which amounts to a fraction 0.2% of FGC's revenue.

Intellectual Property Objects Registered by the Company at Rospatent in 2016



Value Dynamics of R&D Financing in 2012–2016, RUB billion

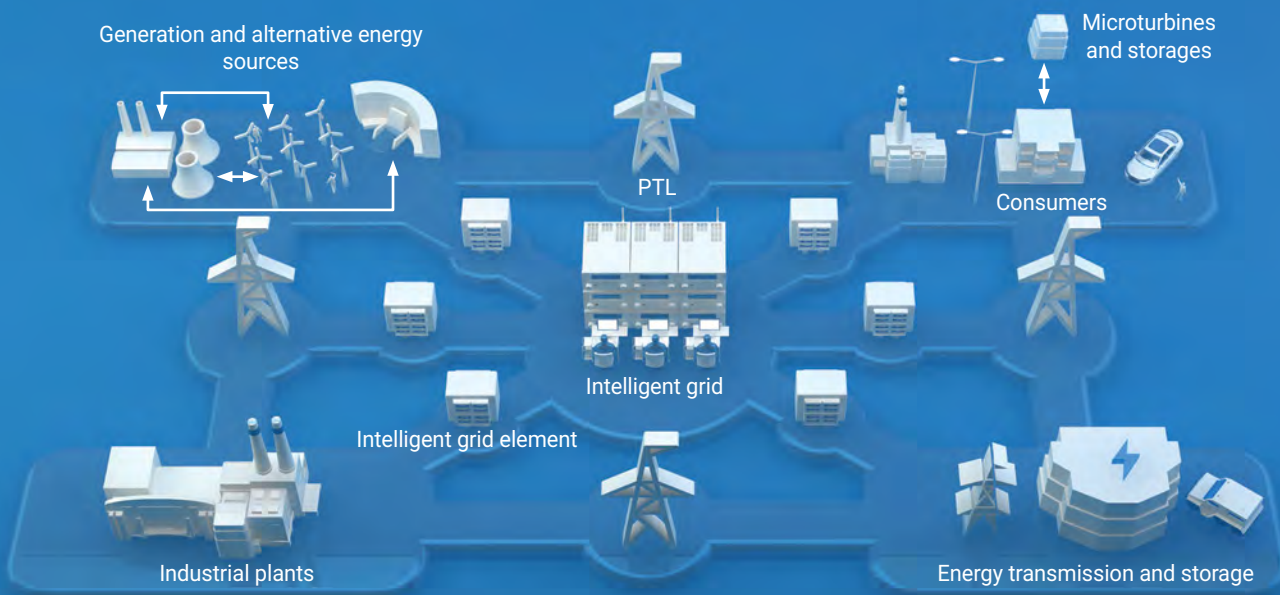


Intelligent Power System Concept

The potential result of the Innovative Development Programme's implementation shall be creation of an electric power system with an intelligent grid, which differs from the existing grid by the presence of certain innovative components: automatic systems for electric power transmission control, active grid elements with variable parameters, a system for monitoring the current

grid state, automated real time systems of maintaining the power system's operation within the set parameters as part of the unified analysis and decision making system. The basis principles for building the intelligent grid and power system control and the priorities for the system's factors and conditions are the reliability and efficiency of the entire system.

Intelligent Grid Circuit



¹ Approved by the PJSC FGC UES Order No. 133 on 19 March 2015.

Analysis of Financial Performance

Strategic Priority



The analysis is prepared on the basis of PJSC FGC UES's annual accounting indicators for 2016 according to RAS. Individual indicators are provided in accordance

with IFRS Consolidated Financial Statements and are accompanied by a corresponding note.



FGC's efficiency:
SUPERIOR FINANCIAL PERFORMANCE

	OBJECTIVE 2016	ACHIEVEMENT 2016	GOAL 2017
Adjusted EBITDA, RUB million	100,696	119,662	110,260 ²
Efficiency of implementing the cost management programme vs. 2012	-41%	-46%	-45%

QUESTION & ANSWER

Sergey Terebulin
Deputy Chairman of the Management Board,
Member of the Management Board

In 2016, changes were introduced to the acts of the Government of the Russian Federation in terms of establishing the price level for technological connection, in particular, by providing the possibility of making payments in instalments for technological connection over a period of 10 years. How will these changes impact the financial reporting of PJSC FGC UES?

Regardless of payments in instalments, the Company's revenue is recognised at the moment of signing the acts on the provision of technological connection. Monetary claims to generating companies that have

an instalment plan will appear in accounts receivable with a corresponding priority rank. Interest paid on instalment plans from the counterparts will be recognised within the revenue as it comes in.

At the year-end of 2015, the debt ratio of the fixed interest rate to the floating interest rate within the PJSC FGC UES's credit portfolio was 1:1. How will this ratio change in the future? Is there an objective to change the current ratio by some deadline?

The majority of the debt, which is served with a floating rate (CPI+1%), consists of revenue yielding bonds that are issued in favour of Vneshekonombank, which are invested in such a way that pension savings that are under its administration. This is long-term debt of which repayment falls in the period of 2045-2048; there is

no alternative on the market for such funding at the moment.

The formulated debt structure is balanced as it provides very comfortable borrowing terms (with the average give time of 17.2 years) with a low interest rate of 7.84% per annum as of 31 December 2016.

² The indicator decline in 2017, compared to 2016, is the result of a receipt of lump-sum income in 2016, including penalties claimed for the improper execution of the contractual obligations, by the subcontractors.

QUESTION & ANSWER

What possibilities does the Company have left to reduce its operating costs, and what measures have been taken?

A system of measures to improve efficiency has been developed and implemented at PJSC FGC UES that covers all key aspects of the Company's operation. The following can be emphasised among the key measures:

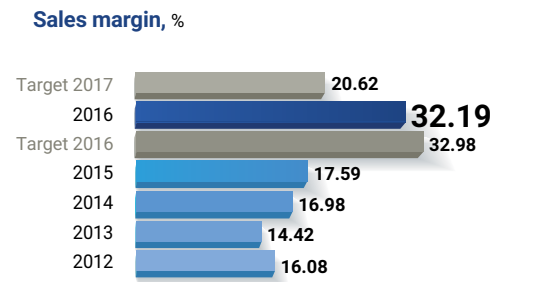
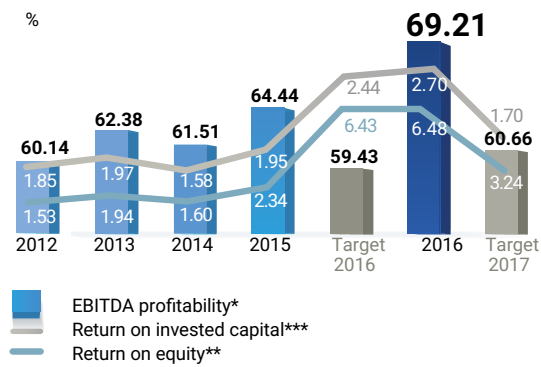
- Introduction of an integrated asset management system that includes an automated control system for the processes of repair planning, diagnostics and the assessment of operating conditions;
- A project for improving labour productivity;
- Identification of potential efficiency improvement and best practices by comparing the branches to each other;
- Development of a standard design, and the repetitive use of design documentation;
- Reduction of operating costs per servicing unit for electric equipment by updating the operation process flow chart;
- Improvement of the management efficiency of accounts payable and accounts receivable, including improvement of the IT systems for accounts receivable;
- Centralisation of the individual support functions.

Does the Company have scenarios for the minimum and maximum expected tariff growth rates in 2017?

The 2017 tariff growth has already been set – it will increase by 5.5% as of 1 July 2017, which takes into

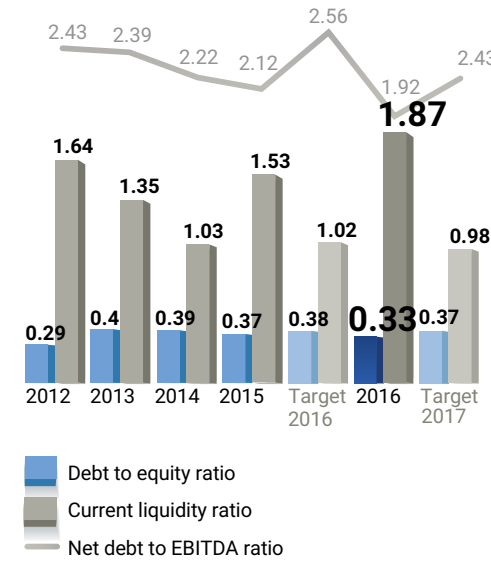
account capacity changes and corresponds to RGR growth by 3%, according to SES.

Financial Ratios Describing the Efficiency of the Company's Financial Policy



In 2016, the sales margin stood at 32.2%, which is less than the target indicator due to the extension of deadlines for the acceptance of technological connection services to 2017 and onwards by taking into account the actual deadlines of technological connection that are required for the consumer. The decline in the planned sales margin for 2017 when compared to 2016 was caused by the planned decrease of technological connection revenue, the increase of depreciation (the commissioning of new facilities as fixed assets) and by expenditures that are beyond Company's control (a phased cancellation of the property tax privilege, the purchase of electric power losses, etc.). The return on equity for 2016 increased to 6.5% because of the recognition of technological connection service revenues (in a number of large-scale projects for technological connection at Rosenergoatom generating stations).

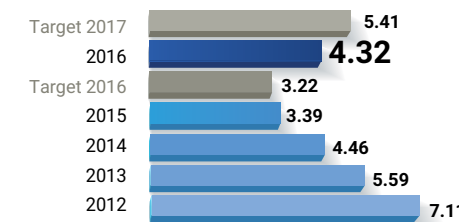
* When calculating the indicator, the revenue of the Company is adopted excluding the provision of services for technological connection to the grid (in order to make it comparable with EBITDA indicator).
 ** The indicator is calculated based on the adjusted net profit of the Company (excluding the accruals and recovery of the bad debts, and the appreciation of financial investments) and the corresponding adjustment of equity capital value.
 *** The indicator is calculated basing on the adjusted indicator of EBIT according to RSA reporting data (excluding the accruals and recovery of the bad debts, the appreciation of financial investments and technological connection revenue).



The debt to equity ratio is at a level that is comfortable for FGC. The indicator declined according to the results of 2016 by 0.04% compared to 2015. A slight growth of the indicator is planned in 2017, although it will not exceed the level of the previous periods.

The debt to EBITDA ratio corresponds to restrictions set by the credit policy of FGC (that is, not more than 3). According to the results of 2016, the decline of this indicator was observed. The forecasted ratio value for 2017 is similar to the previous periods but slightly higher than the value in 2016. At the same time, the indicator will remain significantly lower than the maximum values set by the FGC's Board of Directors.

Interest cover ratio



The interest cover ratio demonstrates uneven dynamics, which is caused by the fact that the majority of the credit portfolio consists of floating bonds with interest calculated on the basis of the inflation index (CPI). The growth of inflation in 2014–2015 impacted the interest payments. As of 2016, the cover ratio increases as the interest payments of the Company decrease.

FGC's credit policy provides the level of debt and its servicing cost that is comfortable for the Company.

Dynamics of Key Financial Indicators

In 2016, the financial performance indicators affirm the increase in FGC's performance efficiency that is a result

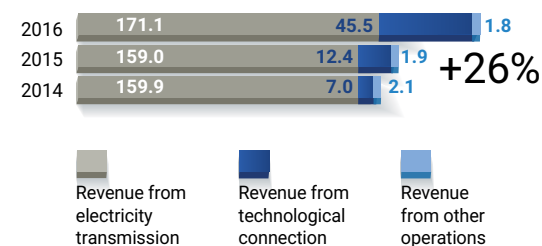
of both revenue growth and cost optimisation during the restriction of tariff growth.

	mln RUB	2012	2013	2014	2015	2016 Objective	2016 Actual	2016/2015 Change, %	2017 Objective
Revenue		138,836	155,352	168,941	173,266	228,994	218,366	26%	201,857
Cost of sales and administrative cost*		116,510	132,948	140,259	142,789	153,479	148,071	4%	160,227
Net profit		-24,532	-25,898	5,137	17,870	55,021	106,071	494%	26,498
Adjusted EBITDA**		82,847	96,297	99,603	103,667	100,696	119,662	15%	110,260
Net debt		174,368	230,580	221,146	220,288	257,796	229,906	4,37%	244,599

* Taking into account the retrospective changes of the indicators.
 ** Excluding the accruals and recovery of the bad debts, the appreciation of financial investments and technological connection revenue.

Revenue

Revenue structure, billion RUB



The revenue of PJSC FGC UES increased by 26% in 2016 compared to 2015. The main growth factors were the recognition of revenue from the technological connection of Rosenergoatom's facilities and the indexation of the power transmission tariff.

Costs

The total cost (including production and administrative costs) increased by RUB 5.3 billion in 2016 compared to 2015.

Cost of Sales

The main factors that caused a change in the cost of sales in 2016 compared to the 2015 level are:

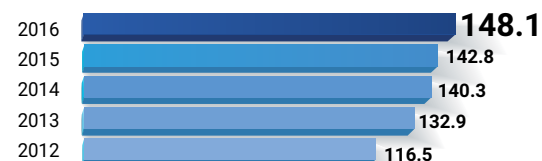
- Increase of property tax expenses by RUB 1.6 billion (+22.5%), which was caused by the phased cancellation of the property tax privilege as of 1 January 2013 for property relating to power transmission lines;
- Depreciation increase by RUB 4.2 billion (+5.6%),

which was caused by the commissioning of new fixed asset facilities in the framework of implementation of the large-scale Investment Programme, as well as by the appreciation of the facilities.

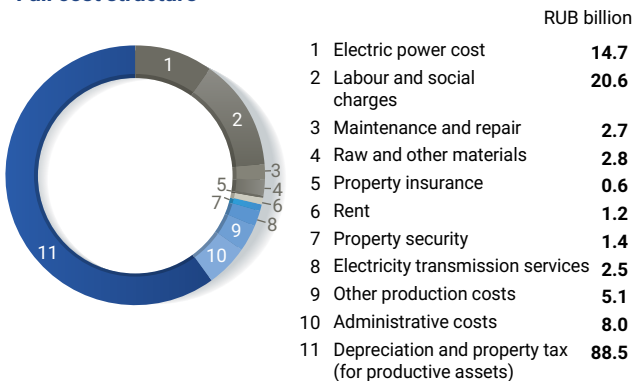
Administrative Costs

The increase of administrative costs was only 2.3% (RUB 182 million) in 2016 compared to 2015, which is significantly less than the inflation rate (7.1%) and affirms the effectiveness of the measures aimed at controlling the growth rate of administrative and management costs.

Full cost dynamics, RUB billion



Full cost structure



Cost Optimisation.

The decrease in operating expenses compared to 2012 was 46.03%. The cumulative effect of this decrease in operating expenses was RUB 17.3 billion.

The above results were achieved thanks to a decrease in procurement value, cost reduction in long-term contracts, and cost reductions in contracts for guarding facilities, IT services costs, and also as a result of headcount optimisation.

Cost Reduction

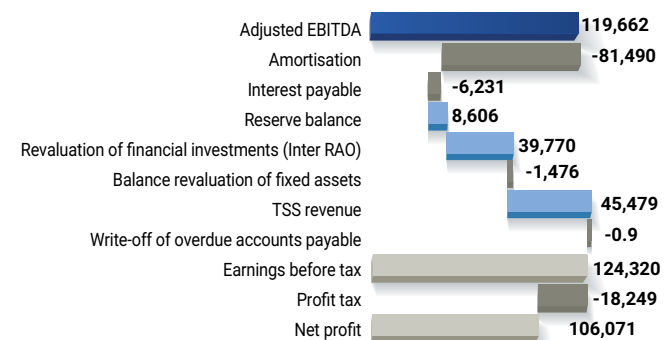
	2012	2013	2014	2015	2016
Reduction of unit operating expenses vs. the 2012 level*, %	X	-8.4%	-22.8%	-39.9%	-46.0%

More information on cost reduction is available in the [Appendix 1](#) hereto

* The effect indicated takes into account the retrospective change in the quantity of served equipment, and has been calculated in accordance with new regulations on SF6 equipment and 330 kV, 500 kV cable lines (in accordance with PJSC FGC UES Order No. 482 on 3 December 2015 "On approval of Guidelines on calculation of the PJSC FGC UES service volume in conditional units").

EBITDA and profit

Profit generation, RUB million



EBITDA

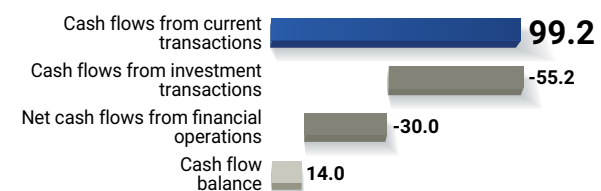
The adjusted profit before interest, profit tax and depreciation (EBITDA) increased by almost RUB 16 billion (15.4%) compared to the same period in 2015 and amounted to RUB 119.7 billion.

Net Profit (Loss)

As a result of 2016, the net profit of PJSC FGC UES amounted to RUB 106.1 billion, which was 5.9 times (or RUB 88.2 billion) higher compared to 2015. The major factors for this increase were mainly the result of other revenues (from the revaluation of PJSC Inter RAO's share value that was caused by the growth of their market quotations and an increase in the recovery amount of bad debts) and revenue growth from services of technological connection to the grid.

Cash Flow

Cash Flow in 2016, RUB billion



Information on the major sources that make up the cash flow is available in the [Appendix 1](#) hereto

Liabilities

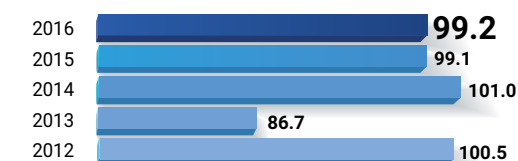
As of the end of 2016, the value of the debt portfolio of PJSC FGC UES» (principal debt, excluding interest accrued as of the balance sheet date) was RUB 261.65 million, which decreased by RUB 13 billion, or 5%, compared to the previous year, RUB 261.39 billion of which are loans based on bonds with an average interest rate of 7.84%.

The structure of the credit portfolio is optimally balanced in terms of instruments, cost and currency. The debt portfolio is represented by mostly by long-term instruments; the interest rates are fixed for 2/5 of the portfolio and variable for 3/5 of the portfolio (slightly more than half of the debt consists of revenue yielding bonds with a floating coupon rate linked to inflation). The currency risk is totally absent, as all of the bonds are in rubles.

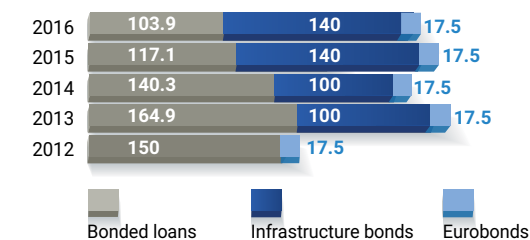
The Company follows a moderately conservative policy that allows it to maintain the status of a highly reliable borrower, complying with its commitments in terms of the implementation the large-scale Investment Programme, its liabilities and dividend payments. To achieve these objectives, the Company clearly complies with the following target indicators in terms the debt burden:

- Debt cover limit (net finance debt/EBITDA) of not more than 3;
- Limit for debt service cover (net debt service cost/EBITDA) of not more than 0.25.

Dynamics of cash flow from major operations, RUB billion



Bond portfolio structure, RUB billion*



*Principal debt, excluding interest accrued as of the balance sheet date

In 2016, the Company executed all of its obligations on servicing the debt portfolio and debt repayment on time and in full, including:

- an offer made in April for the bonds of the 12 series (of which the outstanding amount was RUB 10 billion), with buy-back from the investors amounting to 99.5% of the placed bonds;
- an offer made in October for the bonds of the 25 series (of which the outstanding amount was RUB 15 billion), with buy-back from the investors amounting to 88% of the placed bonds.

In November, we placed Series BO-02 exchange bonds to the total amount of RUB 10 billion with a coupon rate of 9.35% and an offer in 5 years.

In order to finance the Investment Programme for 2017-2020 and refinance existing debt, the Company will consider the use of the bonds, Eurobonds and bank credits in the future. Amounts of attracted financing and the section on specific instruments will depend on the 2017-2020-business plan and market conditions.

Bond offers with total amount of RUB 25 billion are planned in 2017. When the Company executes obligations in terms of the offers, the source of cash will be defined based on the financial conditions, as well as by taking into account the Company's current liquidity on the date of the offer. The Company's own funds, as well as borrowed funds, may be used as a source.

Further details on the outstanding bond issues of PJSC FGC UES are available in [Appendix 1](#) hereto

The list of main standard legislative acts that regulate the issues of tariff formation for activity on electric power transmission via the UNEG is available in the [Appendix 1](#) hereto

Credit Ratings

As of the end of 2016, the Company's international credit ratings (assigned by Moody's, Standard & Poor's, and the Fitch ratings agencies) remain at the sovereign level, the same as in the previous year on the rating scale of Fitch in the investment category, and on the

rating scale of Standard & Poor's and Moody's in the category of the least speculative shares, which is the evidence of the Company's status of a highly reliable borrower, as well as the high level of the Company's solvency.

Information on Credit Ratings as of 31 December 2016

Rating Agency	Rating Value	International Scale	National Scale
Standard & Poor's	BB+ Outlook Stable ¹		ruAA+
Moody's	Ba1 Outlook Negative ²		Withdrawn ³
Fitch Ratings Ltd	BBB- Outlook Stable		AAA (rus)

Mid-Term Outlook of the Company's Financial Performance and Financial Position

Outlook for Key Financial Indicators, RUB million

	2017	2018	2019	2020
Revenue	201,857	199,416	198,657	198,489
Cost of sales	151,808	159,047	167,134	171,588
Net profit	26,498	19,221	11,624	7,521
Adjusted EBITDA	110,260	112,384	112,808	115,621
Net debt	244,599	242,350	235,484	207,070
CAPEX*	105,587	104,208	98,137	75,269

* The financing plan for the PJSC FGC UES Investment Programme (the investment plan adjustment was approved by the Order of the Russian Ministry of Energy No. 1432 on 28 December 2016).

¹ The outlook for the rating was changed to positive on 21 March 2017.

² The outlook for the rating was changed to stable on 21 February 2017.

³ This rating action is related to the termination of the agency's rating activity in the Russian Federation at the national scale due to new regulatory requirements introduced for credit rating agencies in Russia. The decision to withdraw the rating at the national scale will not affect the rating according to the international scale.

Tariff Regulation

Electric power transmission via the UNEG and technological connection tariffs are approved by the federal executive body in the area of tariff regulation, the functions of which have been transferred to the Federal Anti-Monopoly Service (FAS of Russia) since 2015⁴.

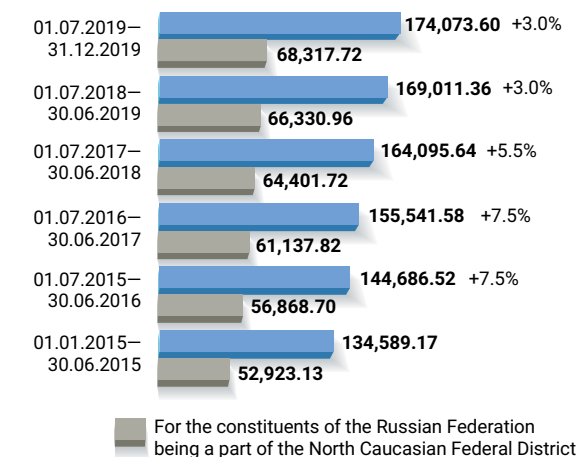
The Company's activity on providing the services of electric power transmission via distribution grids is regulated at the regional level by the executive bodies of the constituents of the Russian Federation.

Tariffs for Services of Electric Power Transmission via the UNEG

Tariffs for services of electric power transmission via the UNEG are set on the basis of the return on invested capital method (RAB regulation).

In order to set the tariffs for each year of the regulated period, the required gross revenue (RGR) is determined by summing up the values of return, invested capital income and the expenses required for the provision of electric power transmission services via the UNEG. To prevent a sharp increase of the tariff, the RAB-regulation methodology provides an evening mechanism that redistributes the required gross revenue over the entire long-term period of regulation.

Tariffs Set for Services of Electric Power Transmission via UNEG provided by PJSC FGC UES for 2015–2019⁵, RUB/MW-month



Information on the main long-term regulation parameters for the services of electric power transmission via the UNEG set by the FST of Russia, as well as the adjustment introduced to the set tariffs and the regulation parameters in 2016, is available in the [Appendix 1](#) hereto

In 2014, the FST of Russia approved the regulation parameters and tariffs for the services of electric power transmission via the UNEG for the second long-term regulation period of 2015-2019⁶.

The tariff rate to pay for standard technological losses of electric power when transmitted via the UNEG is determined according to a formula⁷.

Tariffs for Services for technological connection to the UNEG

The FAS of Russia defines two payment methods for technological connection to the UNEG facilities: the approval of an individual payment for a specific applicant (in case construction of electrical grid facilities is required) and the approval of a payment per formula using the standard tariff C1 rate.

The standard C1 rate is set for FGC is at the same level as the rate for consumers of all constituents of the Russian Federation, regardless of the electric power supply category, the range of the connected capacity or voltage level of the applicants. The only exception is for consumers connected at less than 150 kW. In that case, the C1 rate does not include expenses for the presence of a Rostekhnadzor official during examination. The 2017 rate for this consumer category is set in the amount of 23.15 RUB/kW.

Dynamics of the Standard C1 Rate, RUB/kW (excl. VAT)



The 2017 standard tariff rate for PJSC FGC UES was approved in the amount of 23.64 RUB/kW (excl. VAT) divided by the activity. The decrease in the tariff rate by 6.04% for 2016 is a result of a decrease in FGC's headcount in the activity of technological connection.

Starting from 2013, the payment for the technological connection of generating facilities to the UNEG, in addition to expenses for new construction of «last mile» electrical grid facilities, includes the cost of investment for developing the existing grid infrastructure in order to provide the delivery of capacity, regardless of the type of generation – HPP, NPP, or CHP.

⁴ Decree of the Russian President No. 373 on 21 July 2015 "On some issues of the state's control and monitoring in the area of anti-monopoly and tariff regulation."

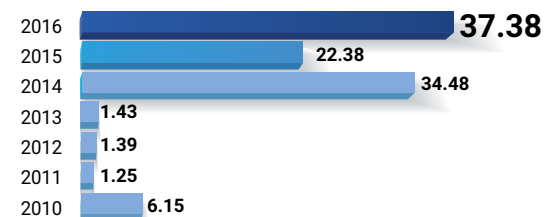
⁵ Order of the FST of Russia No. 297-e/3 on 9 December 2014.

⁶ Taking into account the adjustments introduced by the Order of the FAS of Russia No. 1892/16 on 27 December 2016.

⁷ Resolution of the Russian Government No. 458 on 11 May 2015.

⁸ Order of the FAS of Russia No. 1830/16 on 23 December 2016.

Dynamics of the Approved Total Payment Amount for Technological Connection, RUB billion



In 2016, the payment for technological connection by an individual project was set for **9 consumers** with a total amount of **RUB 37.3 billion** (excl. VAT). The applicants with the highest payment amount include:

- RUB 32.3 billion JSC Kontsern Rosenergoatom – Kalininskaya NPP
- RUB 1.9 billion PJSC RusHydro – Zelenchukskaya HPP
- RUB 1.3 billion LLC Huadian-Teninskaya CHP
- RUB 1.0 billion JSC Eniseyskaya Territorial Generating Company – Krasnoyarskaya CHP-3

Government Support

PJSC FGC UES did not receive any government support, including subsidies, in the reporting period. At the same time, the Russian Federation Government decided to allocate budget investments in the amount of RUB

1.6 billion for the construction of 500 kV SS Ust-Kut in Irkutsk Region, which were previously saved by the Company.

Consolidated Information on the Financial Performance in IFRS

(RUB million, except ratios and the indicators provided in %)

Consolidated Statement Indicators of Profit and Loss and Other Comprehensive Income

	2012	2013	2014	2015	2016
Revenues	140,313	157,970	175,968	187,041	255,603
Other operating income	3,543	6,155	5,618	4,001	6,039
Operating expenses	(110,031)	(133,811)	(126,137)	(130,963)	(155,508)
Profit / (loss) for the year	7,238	(234,771)	(20,601)	44,098	68,382

Financial Information Not Regulated by IFRS

	2012	2013	2014	2015	2016
EBITDA ¹	49,978	(234,196)	25,804	98,149	120,347
Adjusted EBITDA ²	82,732	92,551	107,676	104,338	116,660
Adjusted profit for the period³	30,150	23,405	40,841	46,378	86,645

¹ EBITDA is a profit / (loss) for the period before any taxes, interest, depreciation or amortisation. The adjusted EBITDA for 2015-2016 is calculated as EBITDA minus the net loss from the depreciation and revaluation of the assets, gains on the de-recognition of a subsidiary (only until 2016), revenue from technological connection, the cost of the provision of doubtful debts (excluding the amount of receivables impairment reserve calculated as a difference between the book value of the accounts receivable and the present value of the estimated future cash flows), and by taking financial income into account. The adjusted EBITDA for 2012-2014 is calculated as EBITDA minus the net loss from the depreciation and revaluation of fixed assets, the devaluation of financial investments available for sale, the devaluation of the short-term notes, the reversal of impairment loss from the devaluation of investments into associated companies, and by taking financial income into account.

² The adjusted profit for 2015-2016 is calculated as profit for the period minus the net loss from the depreciation and revaluation of fixed assets, gains on the de-recognition of a subsidiary (only until 2016), including respective deferred income tax.

³ The adjusted profit for 2012-2014 is calculated as profit/loss for the period minus the depreciation of fixed assets, loss from the revaluation of the fixed assets, gains on the de-recognition of a subsidiary (only until 2016), the devaluation of financial investments available for sale, reversal of impairment loss from the devaluation of investments into associated companies, the impairment of short-term notes, including respective deferred income tax.

(RUB million, except ratios and the indicators provided in %)

Ratios and Other Indicators

	2012	2013	2014	2015	2016
Return on assets ⁴	2.5%	2.1%	4.4%	4.8%	8.3%
Return on equity ⁵	3.3%	3.2%	7.3%	7.8%	12.9%
Current liquidity ratio ⁶	1.36	1.22	0.93	1.22	1.19
Aggregate capital / aggregate assets	0.72	0.60	0.61	0.62	0.66
Gross debt	216,418	287,588	262,977	281,542	266,614
Floating debt	23,218	29,624	29,686	31,466	29,660
Long-term debt	193,200	257,964	233,291	250,076	236,954
Net debt ⁷	168,002	223,995	220,099	222,903	221,750
Net debt/adjusted EBITDA	2.0	2.4	2.0	2.1	1.9
Cash flow from operating activity	70,306	78,792	93,013	98,023	111,476

⁴ Return on assets is calculated as adjusted profit for the period divided by the average value of aggregate assets for the period;
⁵ Return on equity is calculated as adjusted profit for the period divided by the average equity value for the corresponding period.
⁶ The current liquidity ratio is calculated as the ratio of consolidated current assets to consolidated current liabilities (net of accounts payable to FGC shareholders).
⁷ Net debt is calculated as long-term and floating debt minus cash and equivalents, short term bank deposits and short-term notes.

Sustainability Results

The development of human capital, social responsibility and environmental safety, along with economic efficiency, remain unalterable priorities for our Company



For more information on the Company's strategic goals in the area of sustainability, please see the [Strategic Report – Market Review, Strategy and KPIs/Sustainability Strategy section](#)

	OBJECTIVE 2016	FACT 2016	GOAL 2017
Labour productivity	≥ 3,869 RUB/man hour	4,264 RUB/man hour	growth ≥ 5.9% compared to 2016
Accident frequency rate	<0.221 per 1,000 persons	0.137 per 1,000 persons	<0.137 per 1,000 persons
Environmental protection costs and investments	242.9 RUB mln	193.98 RUB mln	253.78 RUB mln
The share of procurements of Russian main electrical equipment	51%	70%	54%

The development of human capital, social responsibility and environmental safety, along with economic efficiency, remain unalterable priorities for our Company

We consider the retention of the levels of reliability and technological progress achieved over the years of large-scale investments to be one of the main development tasks for PJSC FGC UES for 2015–2019.

The main principle of the Company's sustainability policy is to maintain the balance of implementing the social and economic interests of our activities and to focus on sustainability aspects that are of primary importance for our stakeholders.

Every year when preparing the Report on social responsibility and corporate sustainability, FGC UES holds a questionnaire in order to determine the priority aspects of our Company and interested parties.



For a list of FGC UES's stakeholders and an understanding of the Company's responsibility to them, please see the [Strategic Report/ In Brief](#)



For more information on social responsibility and sustainability principles, basic and specific business directions in the sustainability area, interaction with interested parties, and the Company's key performance results in the area of sustainability for 2016, please see the respective sections of the [Report on Social Responsibility and Corporate Sustainability](#)



For information on the participation of PJSC FGC UES in congresses and exhibitions, please see [Appendix 1](#) hereto



For more information on the Company's staff, please see the respective sections of the [Report on Social Responsibility and Corporate Sustainability](#)



For additional information on the Company's awards policy, please see the [Appendix 1](#) hereto

QUESTION & ANSWER



Natalia Ozhegina
Deputy Chairman of the Management Board

Which policy does the Company follow in order to optimise the composition of its staff and what are its results?

The Company pays special attention to raising the labour productivity of its employees in compliance with the requirements for the reliable operation of the electric grid complex, as well as the optimisation of staff composition by reducing the quantity of administrative and managerial staff.

We continued to optimise the staff structure and centralisation of the managerial functions of management units at MES and PMES branches in 2016. In addition to that, the new organisational and functional structure of the Company's executive

office was approved in 2016, which enabled the reduction operational costs, and established clear and transparent functional management verticals that expand the span of control and increases the efficiency of the Company's performance in general. As a result, the average headcount was reduced and labour productivity increased in terms of value. The number of management levels was optimised; the share of administrative and managerial staff in the total headcount was reduced from 19% to 16% in 2016. A high level of staffing was achieved.

Which modern professional standards has PJSC FGC UES introduced into its activities?

We perform systemic analysis and efficiency assessment of organisational and functional structures at all management levels (the Executive Office, MES and PMES), in addition to introducing a unified production unit methodology and management structure based on best industry practices.

Moreover, the Company executes the complex introduction of professional standards in accordance with the requirements of the Federal Law No.122-FZ as of 02 May 2015 "On Amending the Labour Code of the Russian Federation" and Articles 11 and 73 of the Federal Law on Education in the Russian Federation.

In order to strengthen the staff's potential and establish an optimal professional and qualified staff structure, the Youth Succession Pool, the Succession Pool for the Technical Facilities and the Managerial Succession Pool have been established and successfully operate within the Company. There is a system for attracting and retaining of young professionals with a profile in electrical education, and those future professionals who will implement all of UNEG's modernisation and innovative development programmes that we have planned today.



For more information on the Company's social and youth policy, effective employee support programmes and corporate events held in 2016, please see the respective sections of the [Report on Social Responsibility and Corporate Sustainability](#)

Social Policy

The Company's benefits package is a tool for employee motivation and their social security; it includes voluntary medical insurance, accident insurance, a non-governmental pension, financial assistance to employees in need (concerning marriage, childbirth, etc.) and a wage/salary advance.

The Company runs different programmes for employee support.

In order to ensure commitment to the Company's corporate values and promote a healthy lifestyle, different corporate events are held every year, including sporting events, "open doors" days, events for power sector veterans, painting competitions for children and many others.

The most important sustainability aspects for our stakeholders are

- Economic performance results
- Power
- Employment
- Ecology
- Relationships between employees and management
- Occupational health and safety
- Fighting corruption
- Non-prevention of competition
- Compliance with legal requirements
- Consumer health and safety
- Compliance with product liability requirements

Regular and open communication with interested parties provides a better understanding of their expectations and gives the Company a chance to use a targeted approach in preparing the corporate social responsibility agenda. Participation in congresses

and exhibition arrangements, multilateral discussions, raising awareness through mass media – the Company regularly uses all of these communication channels and they provide us with the possibility for dialogue with reference audiences.

HR and Social Policy

The HR and Social Policy of FGC UES represents a unified human resources management system oriented at the achieving a balance between the optimal use of the employees' professional results, the achievement

of the Company's strategic goals and the provision of social benefits and guarantees that meet the needs and expectations of the employees.

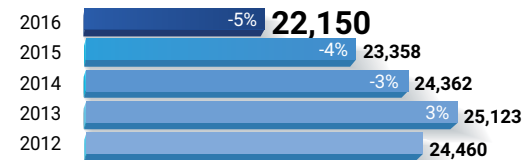
HR Policy

The main targets of the Company's HR Policy are as follows:

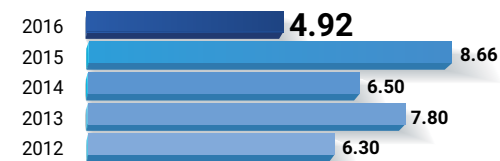
- control of staff efficiency;
- headcount control;
- staff development control.

The Company uses different mechanisms to establish professional and career growth conditions for its employees, as well as the efficient motivation and strengthening of a unified corporate culture with consideration for the social and economic development and specifics of regions where the Company has a presence.

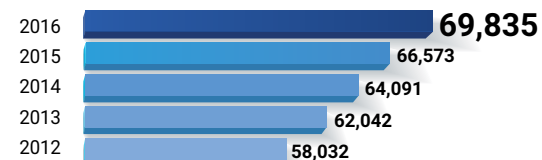
Average Headcount in PJSC FGC UES, employees



The Company's employee turnover rate, %



Average salary of the Company's personnel, RUB



Charity

The Company provides charity support to individuals and companies in different directions, including support for education, science, culture, art, public awareness, physical culture and sport; support for low-income and disabled persons, for the protection of facilities of historical, cultural or environmental importance; support for orphaned children; assistance for those who have suffered from natural disasters and other catastrophes, the victims of repression, refugees and forced migrants; and support for individuals who require medical treatment of a serious disease.

The Company initiated sponsorship contracts in the following directions in 2016:

- support for professional and amateur sports;
- support for events of social and economic importance;
- promotion of projects for the popularisation of energy efficiency and energy saving.



For more information on the Company's charity activities, please see the respective sections of the [Report on Social Responsibility and Corporate Sustainability](#)



For more information on the implementation of the Energy Saving and Energy Efficiency Programme, please see the respective sections of the [Report on Social Responsibility and Corporate Sustainability](#)



For information on the use of energy resources by FGC UES in 2016, please see the [Appendix](#) hereto



For more information on industrial health and safety, please see the respective sections of the [Report on Social Responsibility and Corporate Sustainability](#)



For more information on the Company's environmental responsibility, please see the respective sections of the [Report on Social Responsibility and Corporate Sustainability](#)

21 The Company spent on charity in 2016
RUB mln

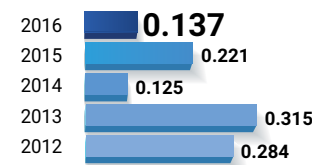
152 The total financing amount of sponsorship contracts in 2016
RUB mln

Industrial Safety

Our health and safety measures are aimed at the elimination of workplace injuries and occupational diseases, the promotion of safe conduct and the development of accident-prevention skills among the employees, as well as at the improvement of working conditions.

The Company has regulations on health and safety management that define the health and safety policy and operational order of the health and safety management system.

Accident frequency rate

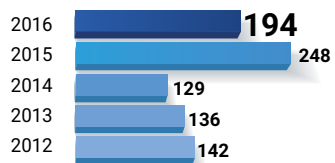


Environmental Safety

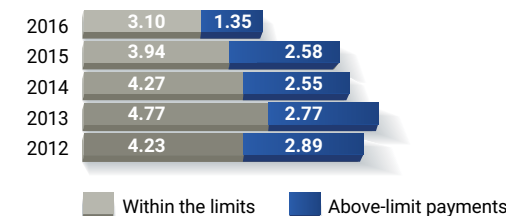
The Company's environmental policy is guided by principles established by the state environmental development policy of the Russian Federation and the Energy Strategy of Russia for the period until 2030. The environmental policy of FGC UES is aimed at minimising any adverse impact on environment in the course of electricity transmission and distribution. The main targets of the Company for environmental protection and environmental management are as follows:

- Compliance with the environmental protection law and reduction of the adverse impact on environment;
- Efficient operation of the environmental management system;
- Minimisation of any adverse impact on environment by the application of innovative solutions and the introduction of the best available technologies.

Costs and investments for environment protection, RUB million



Payments for adverse environmental impacts, RUB million



Energy Saving and Energy Efficiency

In 2016, the Company continued to implement the Energy Saving and Energy Efficiency Programme of PJSC FGC UES for 2015-2019.¹

Goals of the Energy Saving and Energy Efficiency Programme

- To ensure the saving and rational use of fuel and energy resources and reduce the consumption of electricity for corporate needs during electricity transmission via UNEG grids by improving the energy efficiency of the Company's facilities and equipment
- To put in a system in place for electric power management and the certification of operations based on the requirements of the ISO 50001:2011 energy management systems requirements with a guide for use
- To improve the energy efficiency of the Company's electric grid facilities and equipment

7,560 tonnes of equivalent fuel
Operational benefit of measures of reducing energy/fuel consumption in 2016.

75 RUB mln ex VAT
Economic benefit of measures of reducing energy/fuel consumption

Procurement Activities

The Company carries out procurement aimed at purchasing the necessary equipment and services on the competitive market within its Investment Programme, and at fulfilling its annual repairs and target programmes.

Principles and Main Tasks of the Company's Procurement Activities

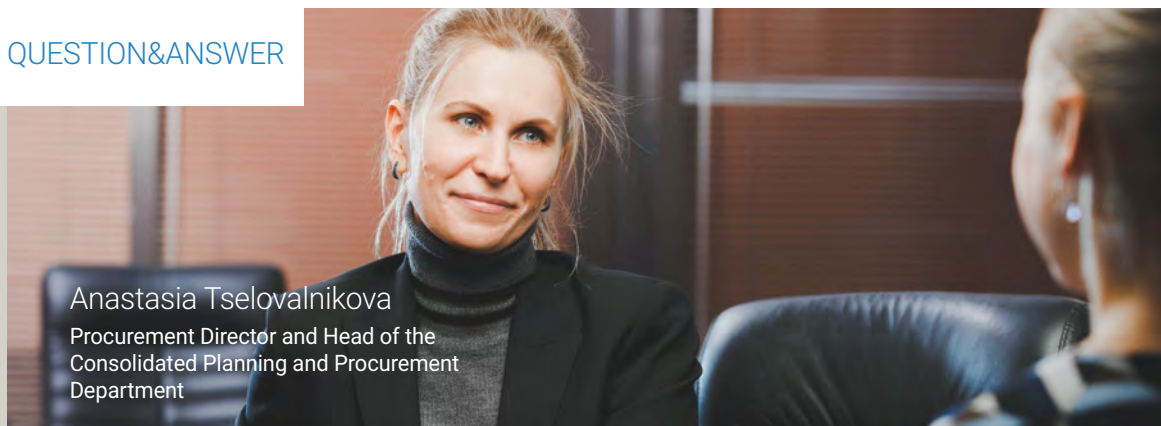
- OPENNESS** Optimise the procurement management system on the basis of best practices
- COMPETITIVENESS** Reduce the Company's expenses by cutting the cost of procured goods, works and services and minimising intermediary services
- JUSTIFICATION** Provide goods, works and services of high quality at minimum cost and in a timely manner

Following the Company's procurement results for 2016, procurements were made in the amount of RUB 109.2 bn. The share of procurement procedures executed on a competitive basis accounted for RUB 101.3 bn, or 92.7%, of total procurements. The economic effect of procurement activities amounted to RUB 2.7 bn.

7,500 suppliers
The Company attracted for the purchase of goods, works and services in 2016

¹ A new version of the Programme was developed in accordance with requirements of the order of the FTS of Russia No.525-e as of 26 March 2015 and the order of the Ministry of Energy of Russia No.398 as of 30 June 2014 and was approved by the resolution of the Company's Management Board on 31 July 2015 (Minutes No.1326 of 04 August 2015).

QUESTION&ANSWER



Anastasia Tselovalnikova
Procurement Director and Head of the Consolidated Planning and Procurement Department

Does the trend for localising the production of your main suppliers (import substitution) impact the quality of the products procured?

The import substitution policy is mainly targeted at the production and application of domestic products with their respective (or higher quality) import analogues. The foreign capital is capable of increasing the technical level and production efficiency by means of new technologies and the replacement of out-dated equipment.

The increased localisation of electrical equipment production that is manufactured by domestic companies under the licenses of foreign producers, or in the framework of joint ventures with foreign participation, leads to the modernisation of the technological park. The launch of new technological

lines and the introduction of modern production technologies that enable the solving of tasks for the development promotion of domestic power engineering and adjacent industries obviously result in a higher quality of manufactured products and improved technical parameters.

It should be additionally noted that all equipment and materials, including the ones localised on the territory of the Russian Federation, undergo a standard product quality inspection procedure for compliance with the technical requirements of PJSC FGC UES when it is supplied to the UNEG's facilities.

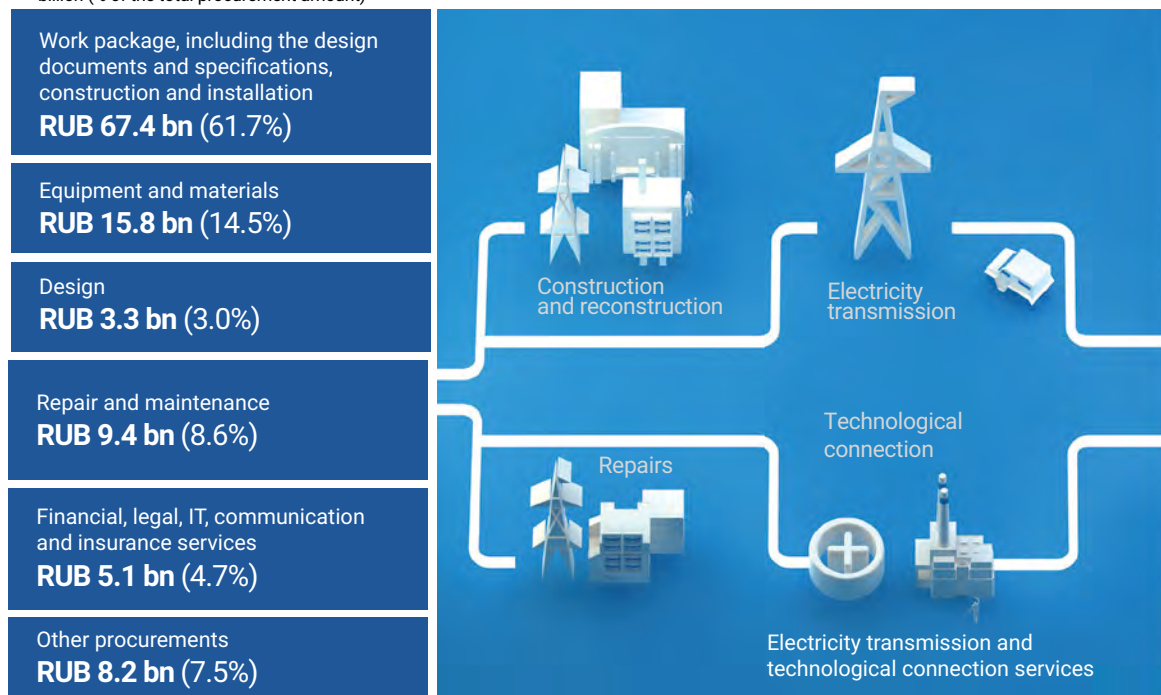
What was the share of small and medium-sized enterprises as part of the Company's total procurement volume in 2016?

In 2016, the Company signed more than 7,200 contracts with small and medium-sized enterprises with a total amount of some RUB 30 bn, which accounted for 27% of all completed procurement procedures. Information on the number and the total

cost of contracts signed by FGC UES following the results of procurements from SME is shared on the website of the Unified Procurement Information System (www.zakupki.gov.ru).

Procurement Chain

Main procured goods, Works and services in RUB billion (% of the total procurement amount)



Procurements from Small And Medium-Sized Enterprises

The Partnership Programme between PJSC FGC UES and small and medium-sized enterprises has been approved by PJSC FGC UES and a register of small and medium-sized enterprises that joined the Partnership Programme is being kept. An advisory body to improve the efficiency of procurements made by PJSC FGC UES, including the procurements from small and medium-sized enterprises, was established at the Company.



The «Road map for cooperation with small and medium-sized enterprises» section was developed on the Company's official website: www.fsk-ees.ru/suppliers/dorozhnaya_karta_po_sotrudnichestvu_s_msp/

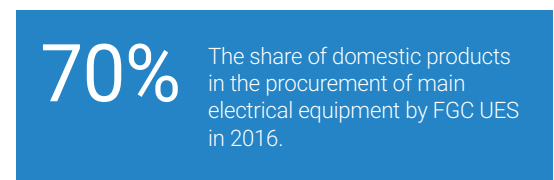


Import Substitution Programme

PJSC FGC UES carries out its activities related to import substitution in accordance with the Import Substitution Programme for Equipment and Materials and Systems Technologies for 2015–2019³.

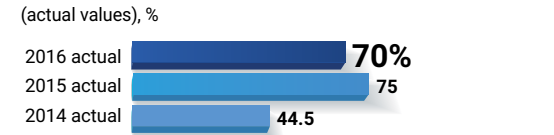


For more information on the main parameters of the import substitution programme, please see the website at www.fsk-ees.ru in the About Company/Import Substitution section



The main assessment criterion for the implementation efficiency of the Import Substitution Programme is the growth of the share of domestic electrical equipment procurements made by FGC UES consisting of 9 groups of main electrical equipment with voltage classes 110-750 kW, of which the purchases depended on import to a large extent.

Share of domestic electric equipment in procurements made by FGC UES

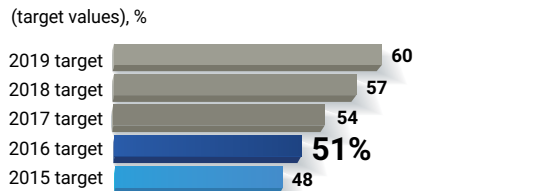


For information on actions taken in the framework of the Company's import substitution activities, please see the Appendix 1 hereto



For more information on the Company's procurement activities, please see the respective sections of the Report on Social Responsibility and Corporate Sustainability

Share of domestic electric equipment in procurements made by FGC UES



FGC UES continues to implement the series of its long-term supply contracts with the leading manufacturers of electrical equipment and plans for the localisation of its production within the territory of the Russian Federation. The Company promotes the establishment of cooperative relationships between electrical product manufacturers and domestic producers of units, materials and components that are capable of

providing quality in line with international standards. The launch of domestic electrical products into international markets is actively supported.

The import substitution actions planned for 2016 and included in the Long-Term Development Programme of PJSC FGC UES were fully completed.

¹ As part of implementing the Russian Federation Government Resolution No. 867-r of 29 May 2013, as of now, the resolution has been fulfilled.
² In accordance with the Russian Federation Government Resolution No.1352 as of 11 December 2014.
³ Approved by the order of PJSC FGC UES No.455 on 10 October 2014.

15 YEARS TOGETHER with Russia

Backbone electric grids of the Urals (MES Urals)

FGC BRANCH

SERVICE AREA

7 constituent territories of the Russian Federation in the Urals and Volga Federal Districts with a population about 17 million people.

PERSONNEL

About 2.5 thousand people

ASSETS¹

HVTL 16.943 thousand km
106 substations, 35-500 kV
Capacity — about 42.949 thousand MVA

OPERATIONS

Electricity transmission. The branch maintains electricity connection between UES of Urals and the power systems of the central regions of Russia, Western Siberia, the Middle Volga Region, and Kazakhstan.

¹ according to annual performance reports



Key infrastructure projects

2008 500 kV substation Emelino in Sverdlovsk Region

Ensuring that new loads of industrial consumers can be connected to the power system (Seversky Pipe Plant, Pervouralsk New Pipe Plant, Sredneuralsky Copper Smelting Plant, Revdinsky Metalware and Metallurgical Plant). Improvement of reliability of electricity supply to the Yekaterinburg–Pervouralsk power area of Sverdlovsk Region in terms of power shortages, ensuring uninterrupted sustainable electricity supply to the consumers.

2013 Construction of 500 kV aerial line Severnaya–BAZ, with expansion of 500 kV BAZ substation

Strengthening of 500 kV backbone grid of UES of Urals, as well as increasing the reliability of power supply to consumers in the Berezniki–Solikamsky district of the Perm Territory and the Serovo–Bogoslovsk District of Sverdlovsk Region; Connection of the new consumers to the power centres of FGC UES in the Perm Territory and Sverdlovsk Regions.

2014–2015 Construction of complex electric grid facilities of UNEG for capacity output of BNPP-2

Control of power shortages in Sverdlovsk and Chelyabinsk Regions; Construction of new electric grid facilities, 220 kV and 500 kV, of UNEG, linking them to the existing power system of the Urals; Construction of a new 500 kV substation Kurchatovskaya on the territory of the BNPP-2.

Ensuring the technological connection of CJSC Mikheevsky GOK to the grids of FGC UES

Reconstruction of 220 kV Kartaly substation, with a 220 kV line cell to connect 220 kV technological substation Mikheevsky GOK, with 220 kV HVTL, Mikheevsky GOK – Kartaly, 25 km long.

PHOTOS:

- 1 500 kV aerial line Severnaya–BAZ
- 2 CJSC Mikheevsky GOK
- 3 500 kV substation Emelino
- 4 500 kV aerial line Severnaya–BAZ

Corporate Governance Report

The development of a corporate governance system to improve the confidence of shareholders and investors



Statement from the Chairman of the Board of Directors

General Information on the Company's Corporate Governance

The Russian Corporate Governance Code defines the Corporate Governance as a system of interactions between the Company's executive authorities, the Board of Directors, its shareholders and other interested parties. Corporate Governance is a tool that the Company's uses to set objectives and a means for achieving these objectives. Furthermore, it also ensures that the shareholders and other interested parties have efficient control over the Company's operations.

The Company's Corporate Governance, which is based on the principles of accountability, fairness, transparency, and responsibility, is aimed at maintaining:

- Equal conditions for shareholders in exercising their rights related to participation in the Company's activities;
- The Board of Directors' strategic management of the Company, as well as efficient supervision and control over the activities of the Company's executive authorities;

- The accountability of the Board of Directors' to the General Meeting of Shareholders;
- The required efficiency, professionalism and independence of the Board of Directors in order to meet the interests of the shareholders and the Company;
- The Company's executive authorities ability to manage the Company's day-to-day operations reasonably and in good faith and that they are held accountable to the Company's Board of Directors and to the General Meeting of Shareholders;
- The timely disclosure of the Company's information, including the Company's financial situation, economic indicators, ownership and governance structure;
- Efficient operation of the internal control and risk management systems to ensure supervision and control over the Company's financial and operating activities, and reasonable confidence in the achievement of the Company's objectives;
- The independence of the assessment of risk management and internal control systems, as well as the corporate governance practices, during the course of the Company's internal audit.



Further details on the key elements of FGC's corporate governance system are available in the charter and by-laws of FGC UES published in the [Investors / Corporate Governance / Corporate Documents](#) section on the corporate website at www.fsk-ees.ru/eng/

Dear shareholders and investors,

The Company's Corporate Governance system meets the requirements of the Russian legislation, the rules of the Moscow Stock Exchange listing, the key recommendations of the Russian Corporate Governance Code, international corporate governance and business ethics standards and practices and openness and transparency principles.

In 2016, the Company actively continued to improve the corporate governance system, deploying the recommendations introduced in line with the Russian Corporate Governance Code, by revising certain clauses of the by-laws and quickly reacting to changes of the external market situation.

In 2015-2016, in addition to the "road map" for the introduction of the main principles of the Corporate Governance Code into FGC UES's corporate governance system, the Company's Board of Directors approved the Plan of Activities for FGC UES's corporate governance development for 2016.

The implementation of this plan was a good starting point for defining a direction for further improvement to corporate governance, including an extension of the Company's principles to its subsidiaries.

FGC UES is continuously monitoring the applicability and relevance of by-laws and executive directives and their improvement in compliance with the Company's requirements and needs related to corporate governance practices.

Moreover, several internal instruments related to corporate governance were approved and certain documents were revised in 2016. Much attention was paid to the internal control, risk management, and openness and transparency of the activities of the Company and Board of Directors, as well as to the development of the corporate governance system in order to meet the interests of the Company and its stakeholders.

In general, the Company's activities related to improving the corporate governance system received high marks from experts, in particular from the Russian Institute of Directors that have been monitoring the Company's corporate governance practices within the framework of the National Corporate Governance Rating since 2012.

Based on the new methodology of the National Corporate Governance Rating, the Company received a corporate governance rating of 7++ for Well-Developed Corporate Governance Practice.

As a result, FGC UES's Board of Directors has every reason to declare the high level of the Company's corporate governance and compliance with the key recommendations of the Russian Corporate Governance Code.

Oleg Budargin
Chairman of FGC UES's Board of Directors

Assessment of the Quality of Corporate Governance

Independent Assessment Made by the Russian Institute of Directors

In October 2016, proceeding from results of the assessment of the quality of corporate governance by using a new methodology, the Russian Institute of Directors granted FGC US the national corporate governance rating at a level of 7++. This rating confirms that the Company meets the requirements of Russian legislation on corporate governance and generally follows the recommendations of the Russian Corporate Governance Code. The owners' risk of loss related to the corporate governance quality is assessed as being quite low.

The Russian Institute of Directors granted FGC UES a corporate governance rating level of

7++
Well-Developed Corporate Governance Practice

Assessment of the Elements of Corporate Governance Practice

Shareholders' Rights	Activities of Supervision and Control Authorities	Information Disclosure	Corporate Social Responsibility and Sustainable Development
GOOD	GOOD	HIGH	HIGH

Assessment of the Quality of Corporate Governance

In April 2016, the Company's Board of Directors approved guidelines for the self-assessment of the corporate governance. This document was developed on the basis of methods approved by the order of Rosimuschesvo No. 306 of 22 August 2014 for the self-evaluation of corporate governance at companies with state participation in order to ensure the comparability of the annual evaluation performed by the Company.

The structure of the document comprises the assessment of corporate governance quality, in particular compliance with principles and recommendations of the Corporate Governance Code as approved by the Bank of Russia. This document proposes certain assumptions related to the Company's activities.

Results of self-assessment of the corporate governance level by component*, %



* The Company's self-assessment of the corporate governance level was made in the 1st quarter of 2017.

The Company achieved a compliance level of 84% with the guidelines for the self-assessment of corporate governance, which affirms a high level of corporate governance quality.

Assessment of Compliance with the Principles of the Corporate Governance Code

In 2016, as a result of implementing the "road map" for the introduction of the Corporate Governance Code as approved in 2015, the share of principles in the

Corporate Governance Code that FGC UES followed increased from 65% in 2015 to 78% in 2016.

Results of the Self-Assessment of Corporate Governance Practices for Compliance with Principles and Recommendations from the Russian Corporate Governance Code²

	Principles Recommended by the Code	2015			2016			
		Compliant	Partially compliant	Non-compliant	Compliant	Partially compliant	Non-compliant	
Corporate Governance Principles								
Rights of shareholders and equal opportunities for shareholders to exercise their rights	13	8	3	2	9	3	1	
The Board of Directors	36	20	13	3	28	6	2	
Corporate Secretary of the Company	2	2	—	—	2	—	—	
System of remuneration to the Board members and senior management of the Company	9	8	—	1	8	—	1	
Risk management and internal control system	6	6	—	—	6	—	—	
The Company's information disclosure	7	5	2	—	5	2	—	
Significant corporate activities	5	2	3	—	3	2	—	
OVERALL ASSESSMENT	78	51	21	6	61	13	4	
		100%	65%	27%	8%	78%	17%	5%



A full report on compliance with the principles and recommendation of the Corporate Governance Code and a report on compliance with the key principles of the UK Corporate Governance Code are shown in Appendix 3 hereto

The wording of Clause 4.2.2. of the Corporate Governance Code does not apply to the Company's operations since FGC's existing policies do not specify the provision of the Company's shares to Board members.

Since the Company's global depository receipts are traded at the London Stock Exchange, FGC is committed to meeting high international corporate

governance standards, including the UK Corporate Governance Code.

Improvement of the Corporate Governance System

Within the development of the action plan ("road map") related to introducing the provisions of the Corporate Governance Code, the Company created and the Board of Directors approved² an action plan aimed at developing FGC UES's corporate governance for 2016.

The plan determined a number of key activities for the reporting period, including an analysis of the necessity to update internal documents issued by the Company and standard documents issued for the needs of its subsidiaries. Additionally, the following documents have been planned for development: guidelines for the corporate governance assessment of FGC UES and its subsidiaries, provisions on the assessment of the activities of the Company's Board of Directors,

and the priority activities of the Board of Directors and its Committees for the next corporate year and a submission for their approval to the Board of Directors. Analysis of corporate governance practice based on the implementation of the "road map" was declared as the key priority of the plan. The Company has fully completed all of the activities defined in the plan.

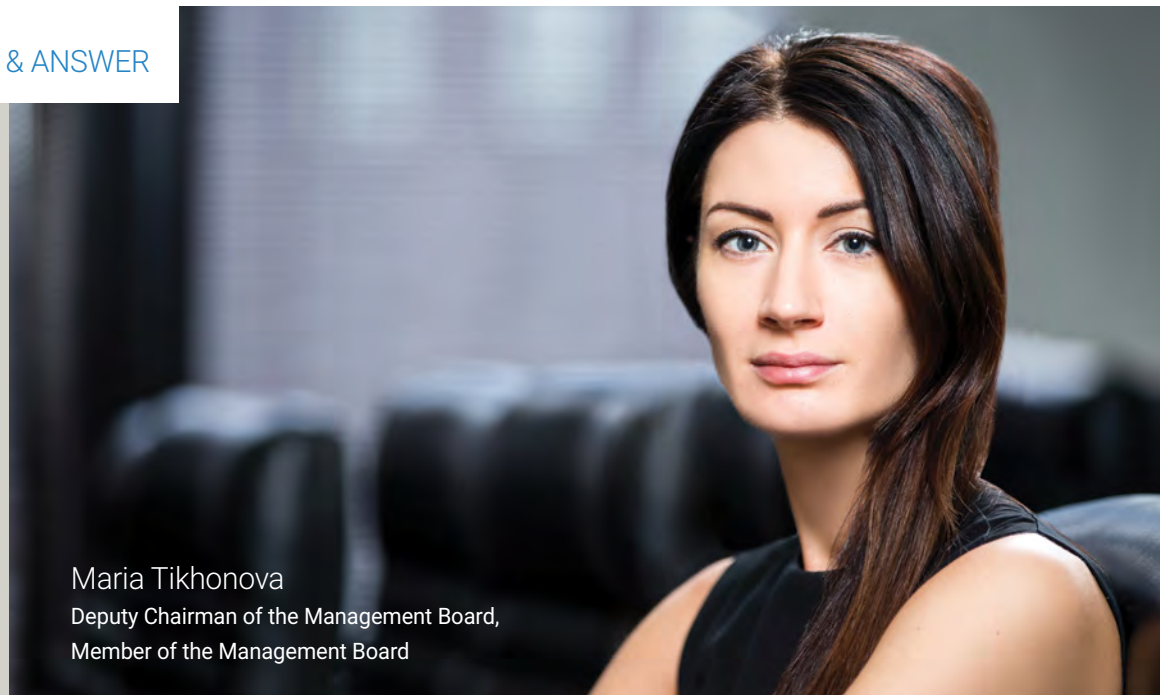
Having achieved significant results in this field, the Company continues to develop its corporate governance practices. Further improvements take any amendments to the legislation, the expertise of Russian and international organisations and recommendations from independent consultants into consideration.

¹ Minutes No. 318 on 28 April 2016.

² Statistics are provided based on the Report on the compliance with the principles and recommendations of the Corporate Governance Code compiled in accordance with the Recommendations of the Bank of Russia No. IN-06-52/8 as of 17 February 2016.

³ Minutes No. 318 of 25 April 2016.

QUESTION & ANSWER



Maria Tikhonova
Deputy Chairman of the Management Board,
Member of the Management Board

In 2015, the Company developed and approved a plan of action (a "road map") for the introduction of the key provisions of the new Russian Corporate Governance Code. The Company has actively introduced recommendations of the Corporate Governance Code into its activities. How would you describe the results of the Company's operations in this field proceeding from the results of 2016?

In fact, we started to implement the "road map" in 2015. We made amendments to the Articles of Association and certain key internal documents and we approached the year 2016 with a fully completed plan. We did not stop at the formal achievement of the set objectives, understanding that we have reserves required for future development. Proceeding from results of 2015, we made an analysis and assessed our perspectives with consideration to external situation changes and continued developing to develop in this direction based on the results of self-analysis and the assessment of external experts.

We continued to develop practices for the assessment for the activities of the Company's Board of Directors, and developed provisions for the assessment for the activities of FGC UES's Board of Directors. It helped us to formalise the process and to define the main assessment requirements made by an independent institution. Particular attention was paid to internal control and risk management. The Board of Directors approved the amendments to the Provision on the Risk Management System of FGC UES and reviewed the

issues of assessing the efficiency of the internal control system and the other key aspects.

As a result, in 2016 the Company's activities in this field were positively assessed by external experts. The Russian Institute of Directors granted FGC UES a corporate governance rating at a level of 7++ Well-Developed Practice of Corporate Governance, and the Expert Council of the Russian Government announced positive dynamics proceeding from results of monitoring over the introduction of the Corporate Governance Code to companies with a state participation, ranking the Company in the fifth place for this rating.

Of course, the Company is not only governed by external evaluation results, but also by an internal self-assessment, which was first introduced in 2016 proceeding from the results of 2015. During the reporting period, we developed our own methodology of self-assessment based on the recommendations of Rosimuschestvo. The results affirm a high level of corporate governance quality.

What are the Company's plans for improving the corporate governance in 2017?

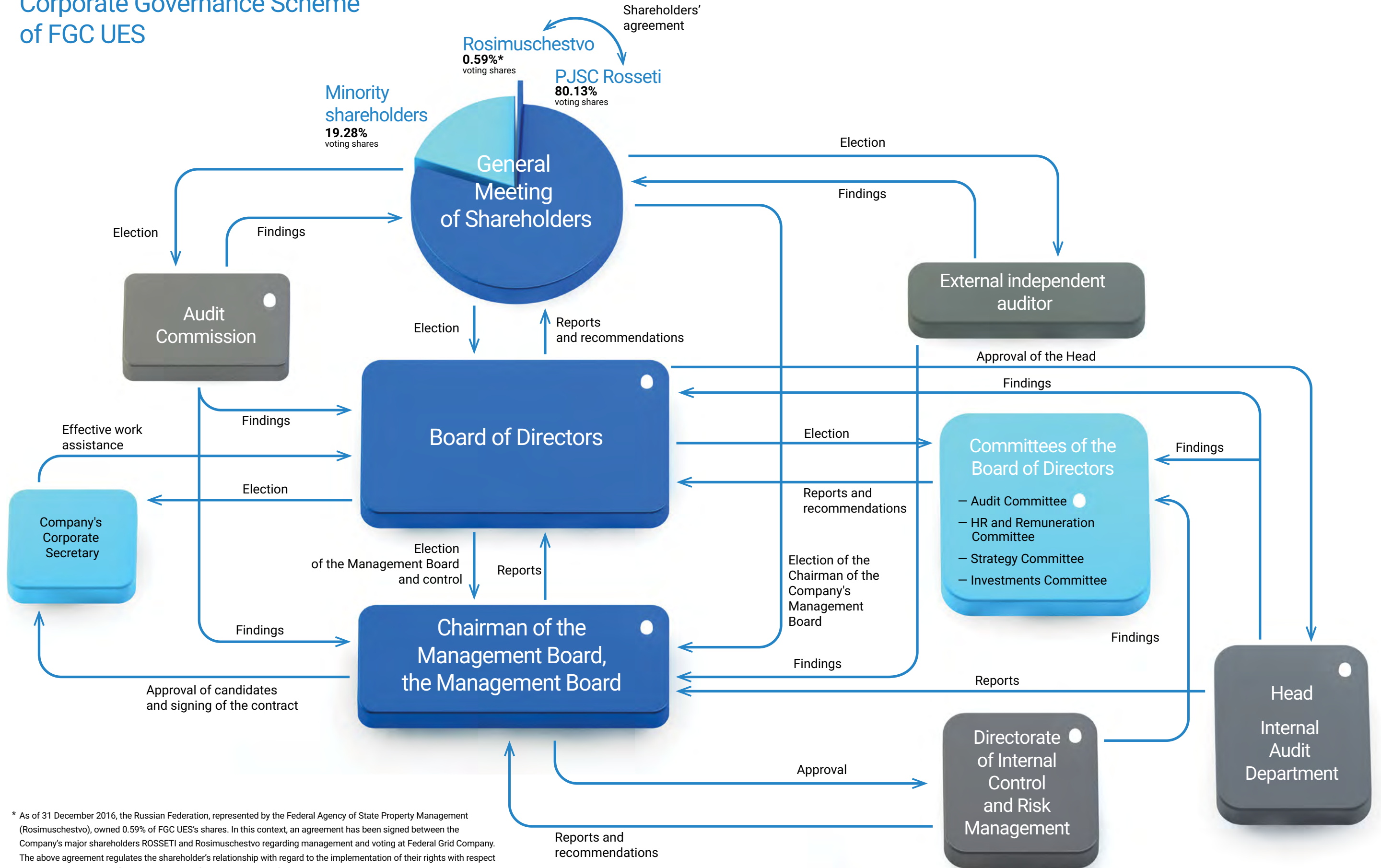
In 2017, we have set two key priorities. First of all, with consideration of the corporate governance development priorities set by the Russian Government and amendments to Russian legislation, we plan to amend our internal documents on the procedure for interested party transactions, large transactions, and information disclosure; we also plan to revise

the Company's Corporate Governance Code by incorporating a provision on the activities of the Board of Directors and the General Meeting of Shareholders. Furthermore, the development of corporate governance at our subsidiaries with an introduction of the Company's corporate governance principles is one of our key priorities for the year.

The Company's Management Authorities

Management Authority	Competences	Regulatory Documents	Frequency of Activities
General Meeting of the Shareholders	The supreme governing body of the Company. It is entitled to resolve the most important issues, including: <ul style="list-style-type: none"> – The approval of annual reports and annual accounting (financial) statements, – The election of members to the Board of Directors and the Audit Commission, – Taking decisions on dividend payments, – Selecting an external auditor. 	Russian Legislation The Company's Articles of Association Provisions on the procedure for preparing and holding the FGC UES' General Meeting of Shareholders	The Annual General Meeting of Shareholders is held once a year. Extraordinary General Meeting of Shareholders are held upon the decision of the Board of Directors. In 2012-2016, Extraordinary General Meeting of Shareholders were held twice.
The Board of Directors	FGC UES's Board of Directors performs the general strategic management of the Company and plays a key role in the Federal Grid's corporate governance system. It is entitled to take decisions on general issues concerning the Company's management, including: <ul style="list-style-type: none"> – Shaping the Company's strategy and monitoring its implementation; – Ensuring the exercise and protection of the rights and legal interests of the Federal Grid's shareholders and protecting the Company's assets; – Ensuring control over the activities of the Company's executive authorities and introducing an efficient stimulation system; – Ensuring the establishment and maintenance of a sound internal control and risk management system; – Monitoring the Company's corporate governance practice. 	Russian Legislation The Company's Articles of Association Provisions on the Board of Directors of Federal Grid Company	The Board of Directors holds about 8-10 joint presence meetings per annum. In 2016, 48 meetings of the Board of Directors was held, including 9 joint presence meetings.
Board Committees	Special-purpose advisory bodies to the Board of Directors. They provide preliminary consideration on matters and recommendations for the Board.	Russian Legislation The Company's Articles of Association Provisions on the Board of Directors of Federal Grid Company Provisions on Committees Held by the Board of Directors	The frequency and format of the meetings of the Board Committees depends on the functions of each Committee.
Management Board	Collective executive body. The functions comprise the Company's day-to-day operations management based on the Articles of Association, decisions of the General Meeting of Shareholders and the Board of Directors.	Russian Legislation The Company's Articles of Association	The meetings of the Management Board are held either in absentia or in person. In 2016, 82 meetings of the Management Board were held.
Chairman of the Management Board	The sole executive body. He is responsible for all aspects related to the Company's day-to-day operational management, except for the issues belonging to the competence of the General Meeting of Shareholders, the Board of Directors and the Management Board.	Provision on the Management Board of Federal Grid Company	–

Corporate Governance Scheme of FGC UES



* As of 31 December 2016, the Russian Federation, represented by the Federal Agency of State Property Management (Rosimuschestvo), owned 0.59% of FGC UES's shares. In this context, an agreement has been signed between the Company's major shareholders ROSSETI and Rosimuschestvo regarding management and voting at Federal Grid Company. The above agreement regulates the shareholder's relationship with regard to the implementation of their rights with respect to Federal Grid Company for the purposes set forth in the Decree of the Russian President No. 1567 on 22 November 2012. The Company's interaction with the State as a shareholder has a specific procedural character that is determined by the regulatory acts of the President and the Government of the Russian Federation. In particular, the State representatives within the Company's governing bodies are required to vote on certain matters as instructed by the Government.

General Meeting of Shareholders

The General Meeting of Shareholders is the supreme governing body of the Company.

The Company is committed to creating the most favourable conditions for its shareholders in order to enable them to participate in the General Meeting and to develop sound positions on the items in its agenda, as well as to provide them with the opportunity to coordinate their actions and express opinions on the items discussed.

Federal Grid Company defined a list of additional materials to be provided to shareholders when preparing for a general meeting to enable them to take well-founded decisions. Such materials include, among other things, the positions of the Board of Directors regarding all items on the meeting agenda, extended information about the candidates for governing and control bodies, tables comparing amendments to be made to the Company's Articles of Association and

internal documents with existing versions. All materials are disclosed on the Company's website, in both English and Russian, not later than 30 days prior to the date of the General Meeting of Shareholders.

Federal Grid Company's Regulations on the General Meeting of Shareholders provide clear procedures for holding the GSM, including an opportunity for shareholders to ask questions on items in the agenda. Shareholders are able to put questions directly to the members of governing and control bodies, the Chief Accountant and the Company's auditors, who shall be mandatory invited to attend the meeting.

In 2016, a live video broadcasting system of the General Meeting of Shareholders was introduced on the Company's website.

Annual General Meeting of Shareholders



The Annual General Meeting of Shareholders of Federal Grid Company was held on 29 June 2016. In accordance with the AGM agenda, the shareholders decided on the following:

- To approve the Company's annual report and annual financial statements, including the Profit and Loss Account of Federal Grid Company for 2015;
- To pay dividends to the Company's shareholders proceeding from the results of the 2015 fiscal year;

- To pay remuneration to the members of the Board of Directors of Federal Grid Company;
- To elect members to the Company's Board of Directors and Audit Commission;
- To approve the external auditor for 2016;
- To approve a new version of the Federal Grid Company's Articles of Association and the Provision on the Board of Directors.



The minutes of the AGM are available on the website www.fsk-ees.ru/eng/ in the Investors / Corporate Governance / Shareholders Meeting section

Report of the Company's Board of Directors

The Board of Directors of FGC UES performs the general strategic management of the Company and plays a key role in Federal Grid Company's corporate governance system.

The activities of Federal Grid Company's Board of Directors are governed by the Company's Articles of Association, the Regulations on the Board of Directors of Federal Grid Company¹, and the Federal Grid's Corporate Governance Code.

Activities for Improving the Company's Corporate Governance System

As a key governing body of the Company that is responsible for creation and development of the Company's corporate governance system, in 2016 the Board of Directors paid close attention to the general

issues of developing the corporate governance system, to improving internal control and risk management procedures, and defining remuneration to members of the Company's governing bodies.

Aspect of the Corporate Governance System	Items Considered
Improving the corporate governance system and practices of the Board of Directors' activities	<ul style="list-style-type: none"> – Consideration of the evaluation results on the efficiency of the Board of Directors and the self-assessment of FGC's corporate governance quality. – Approval of the Regulations on the protection of FGC's insider information and the Regulations on the consideration and settlement of disputes and conflicts of interests in the Rosseti Group. – About the Corporate Secretary of Federal Grid Company – The arrangement of the activities of FGC's Board of Directors. – The creation of Board Committees and a plan of action for FGC's Board of Directors. – Making amendments to the Provisions on the HR and Remuneration Committee of FGC's Board of Directors.
To exercise internal control and risk management	<ul style="list-style-type: none"> – Approval of the Regulations on the assessment the efficiency of FGC's internal control and risk management. – Consideration of the report on FGC's key risks for 2015. – Consideration of the 2015 report of the Chairman of the Management Board and the members of FGC's Management Board on the operation of the risk management and internal control system. – Consideration of the results of FGC's anti-corruption monitoring for 2015 and for the first six months of 2016. – Approval of the "road map" for arranging the risk management and internal control procedures to prevent and fight against corruption.
Internal audit	<ul style="list-style-type: none"> – Approval of the plan of activities and the budget of the Internal Audit Department for 2016. – Consideration of the report on the execution of the plan of activities for FGC's Internal Audit Department for 2015. – Consideration of the report from FGC's internal auditor on the efficiency of the Company's internal control and risk management system proceeding from the results of 2015. – Consideration of the results of the audit of the following business processes: Procurement Activities, Project Management, and Capital Construction.
Remuneration to the members of governing bodies	<ul style="list-style-type: none"> – Approval of the guidelines on the calculation and assessment of implementing quarterly KPIs by FGC's senior management. – Inclusion of an indicator for the reduction of operating costs (expenses) into the list of KPIs for the management to be taken in consideration for the definition of remuneration. – Approval of the report on the implementation of KPIs by the Company's senior management. – Making amendments to the FGC's Long-Term Development and to the guidelines on the calculation and assessment of the implementation of KPIs by the Company's senior management.

¹ In the revision that was approved by the decision of the General Meeting of Shareholders of Federal Grid Company on 29 June 2016 (Minutes No. 17 of 04 July 2016).



Assessment of the Activities of the Board of Directors for the Reporting Year

At the beginning of 2017, the independent company VTB Registrar conducted an assessment of the Board of Directors' activities for 2016. The assessment procedure includes the assessment of activities of the Board of Directors as a whole, the assessment of each committee and the assessment of the individual work of each member of the Board of Directors.

The assessment was conducted by the use of questionnaires that were filled out by the members of the Board of Directors and its committees and by the members of the Company's Management Board and by interviewing certain members of the Board of Directors, the Board Committees and the Corporate Secretary of the Company.

4.8
of 5

The quantitative assessment of the operating efficiency of the Board of Directors as a governing body

5
of 5

The quantitative assessment of the activities of the Chairman of the Board of Directors

93%

The participation amount of Board members in meetings¹

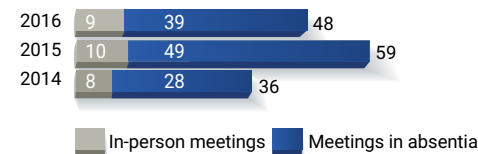
84%

The presence of Board members at joint presence meetings²

Report of the Board of Directors on the Results of the Company's Development in Priority Business Directions

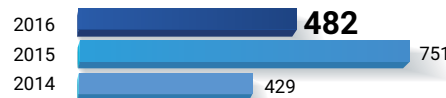
During the reporting period, Federal Grid Company's Board of Directors regularly considered items on the maintenance and development of the UNEG's infrastructure, improving the efficiency of the Company's management and the Company's sustainable development in the long run. 48 meetings were held, including 9 in person meetings and 39 in absentia meetings. The total number of items considered amounted to 482, two-thirds of which were transaction approval items.

Number of meetings of the Board of Directors

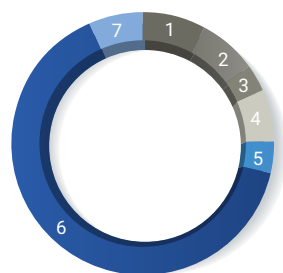


Further details from the minutes of the Board meetings are available in the [Appendix 1](#) hereto

Number of items considered by the Board of Directors




Items considered by the Board of Directors



- 1 Strategy and priority development **38** 7.9%
- 2 Surveillance and accountability **35** 7.3%
- 3 Corporate governance **16** 3.3%
- 4 Management of subsidiaries **31** 6.4%
- 5 HR and Remuneration **18** 3.8%
- 6 Approval of the transaction **313** 64.9%
- 7 Other items **31** 6.4%

¹ From 29 June 2016 until 29 December 2016.
² From 29 June 2016 until 29 December 2016.

In 2016, the Board of Directors considered a range of key items concerning priority directions for the Company's operations:

Strategic Objective	Key Items Considered by the Board of Directors in 2016
 Reliability of electricity supply to consumers	<ul style="list-style-type: none"> – Definition of the priority directions for the Company's operations: checking the quality of the Company's equipment, materials and systems. – Implementation of the requirements of normative regulations to ensure the safe and sufficient anti-terrorism security of power facilities. – Consideration of the plan and status of the implementation of activities for the Company's automated electricity control and the accounting system's compliance with the technical requirements of the wholesale electricity and capacity market. – Introducing professional standards and practices within the Company's operations. – Consideration of the report on handling applications for the technical connection and execution of contracts for process connection to the Company's electric grid facilities.
 Economic efficiency and financial sustainability	<ul style="list-style-type: none"> – Approval of the Regulations on improving the Company's investment and operating efficiency and cost reduction. – Development (upgrading) the plans (programmes) for operating cost reduction by 10%. – Consideration of the consolidated business plan (RAS) and the consolidated business plan (IFRS) for the Federal Grid Group for 2016 and the forecasts for 2017-2020. – Management of interest and currency risks, including the usage of derivative financial instruments.
 Development and functioning of the UNEG to meet the needs of national economy and population	<ul style="list-style-type: none"> – Approval of Federal Grid Company's Investment Programme for 2016-2020. – Consideration of the draft version of revised Federal Grid's Investment Programme for 2016-2020. – Consideration of a plan of activities up to 2019 to reduce the volume of construction in progress in line with the annual reduction rate. – Consideration of the annual report on the technological and price audit of the Company's investment projects in 2015.

Membership of the Board of Directors³

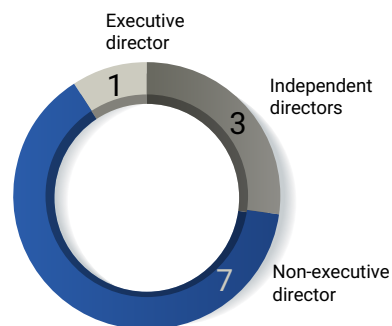
In accordance with Federal Grid Company's Articles of Association, the Board should include 11 members. The membership of the Board of Directors is well-balanced and corresponds to the scale of the Company's operations, the interests of its shareholders and the requirements of Russian legislation and the listing rules of the Moscow Stock Exchange. Candidates for the Company's Board of Directors are elected based on their personal and professional skills and in accordance with the independent criteria specified by the listing rules of the Moscow Stock Exchange. As of 31 December 2016, the Board of Directors comprised 3 independent directors (27% of the total number of Board members).

The main requirements for the composition of the Company's Board of Directors are as follows:

- The members of the Company's Board of Directors shall meet the requirements with respect to their skills, experience, knowledge and business qualities;
- The election to the Company's Board of Directors of at least three independent directors⁴ and one representative from the Non-profit Partnership Market Council;
- Executive directors may not constitute more than 25% of the composition of the Company's Board of Directors.

The company also strives to ensure that the Board of Directors includes representatives of minority shareholders in order to maintain a balance of the best interests of all of the Company's existing shareholders within the Board.

³ Here and elsewhere, personal information about the members of the Federal Grid Company's governing and control bodies has been disclosed with their consent.
⁴ The independent criteria are defined in accordance with the recommendations of the Russian Corporate Governance Code and the listing rules of the Moscow Stock Exchange.



Tenure of the Board members in the Board of Directors



Length of service in the electric power sector



Competences and Industry-Specific Experience of Federal Grid Company's Board Members

Board Members	Compliance	Tenure (in years)	Years within the Energy Industry	Key Competences				
				Strategy	Finances and Auditing	Energy Industry	Legal Matters	Corporate Governance
Oleg Budargin	Chairman of the Board of Directors	6 years	7 years	●	●	●		●
Pavel Grachev	Independent Director	3 years	3 years	●		●	●	●
Andrey Dyomin	Non-Executive Director	3 years	18 years	●	●	●		●
Sergey Mironosetsky	Non-Executive Director	2.5 years	17 years	●	●	●		●
Andrey Murov	Executive Director	2.5 years	4 years	●	●	●	●	●
Egor Prokhorov	Non-Executive Director	8 months	7 years	●	●	●		●
Nikolai Roshchenko	Non-Executive Director	8 months	8 years	●	●	●	●	●
Sergey Sergeyev	Non-Executive Director	8 months	8 years	●		●		●
Igor Kamenskoy	Independent Director	8 months	8 months	●	●	●		●
Ernesto Ferlenghi	Independent Director	6 years	8 years	●	●	●		●
Pavel Snikkars	Non-Executive Director	8 months	12 years	●	●	●	●	●

Attendance of Board Members at Board Meetings and Committee Meetings in 2016

	The Board of Directors	IC	SK	HR&RC	AC
Active members of the Board of Directors during the entire year of 2016					
Oleg Budargin	47*/48 98%				
Pavel Grachev	47*/48 98%			100%	89%
Andrey Dyomin	47*/48 98%		83%		
Sergey Mironosetsky	38*/48 79%	50%		100%	100%
Andrey Murov	46*/48 96%				
Members who left the Board of Directors as of 29 June 2016					
Mikhail Kolesnikov	24*/25 96%			100%	100%
Vyacheslav Kravchenko	22*/25 88%	100%			
Nikolay Shulginov	24*/25 96%		100%		
Maxim Bystrov	20*/25 80%		100%		
Boris Kovalchuk	20*/25 80%				
Sergey Shmatko	23*/25 92%				
Members elected to the Board of Directors as of 29 June 2016					
Igor Kamenskoy	23/23 100%	100%		100%	100%
Egor Prokhorov	23/23 100%				
Nikolai Roshchenko	19/23 83%				
Sergey Sergeyev	23/23 100%	86%			
Pavel Snikkars	21/23 91%		100%		
Ernesto Ferlenghi	23/23 100%		100%	100%	75%

The Company strives to provide its Board members, especially its new members, with every opportunity to collect all the information required to execute their duties. For that purpose, information meetings are held with the participation of the members of the Management Board and the new members of the Company's Board of Directors.

* One meeting (4 April 2016) was not taken into account. Pursuant to article 68 of Federal Law No. 208-FZ of 26 December 1995 and clause 18.12, article 18 of the Articles of Association of PJSC FGC UES, the meeting was recognized as invalid due to the lack of quorum.

Independent Directors

Independent directors provide the independent evaluation of the Board's activities based on their own knowledge, experience and skills. The fairness of the independent directors and their justified criticisms are very valuable to the Board of Directors and to the whole Company.

Our experience of cooperating with these independent directors proves that they demonstrate high levels of professionalism when issuing independent statements and voting independently on agenda items. Independent directors contribute to the taking of decisions in the interests of the stakeholders' various groups and to improving the quality of managerial decisions.

Independent directors play a major role in definition of the Company's strategy development and the

monitoring of its execution, the evaluation of the activities of executive bodies, the assessment of the efficiency of the risk management, internal control, and internal audit systems, and also in the evaluation of the activities of the Board and its committees.

As of the end of 2016, the Board of Directors consisted of 3 independent directors, and the Audit Committee and HR and Remuneration Committee consisted of only independent directors. It is a sufficient amount for the significant impact that they have on the decision making process.

The Company highly appreciates the contribution of independent directors to the improvement of the efficiency of the Board of Directors.

Biographies of the Board Members

Personal information about the members of Federal Grid Company's governing bodies has been disclosed with their consent.

Oleg Budargin

Chairman of the Board of Directors¹

Non-Executive Director

Board Member since 2010

Born in 1960

Graduated from Norilsk Industrial Institute with an honours degree in Industrial and Civil Engineering and a PhD in Economics.

Experience:

Since 2013 - General Director of Rosseti; Chairman of the Management Board, and Board Member

Since 2012 - Member of the Presidential Commission for the Strategic Development of the Fuel and Energy Sector and Environmental Security

External appointments: Member of the Supervisory Board of JSC Russian Regional Development Bank, FSAEI for Higher Professional Education North-Caucasus Federal University, the Chairman of the Supervisory Board of Non-Profit Partnership Association of Solar Energy Enterprises, the Chairman of the Board of Directors of PJSC Moscow United Electric Grid Company, PJSC of Energy and Electrification – Lenenergo, Member of the Board of Trustees and Board of Academics of FSAEI for Higher Professional Education National Research University: the Moscow Power Engineering Institute, Member of the Board of Trustees of the State Academic Mariinsky Theatre. Primorsky Stage, Vice-chairman, Senior Advisor, responsible for the regional development of the World Energy Council, member of the Council, Vice-president for ecology of the Interregional Public Organisation - Association of Polar Explorers.

Participation share in the share of the Company's capital: 0.0006403563%

Pavel Grachev

Independent Director

Member of the Audit Committee

Member of HR and Remuneration Committee

Board Member from 2013–2014, and again since 2015

Born in 1973

Graduated from Saint Petersburg State University and the University of Trieste (Italy) with degrees in law.

Experience:

2010–2013 – Chief Executive Officer of JSC Uralkaly and of the Far East and Baikal Region Development Fund.

2011–2013 – Head of the representative office of Alpina Capital, A.C.L. Ltd.

2013 – General Director of the JSC Far East and Baikal Region Development Fund

2013–2014 – Acting Senior Executive Director of Polyus Gold International Limited

2014–2016 – President of JSC Polyus

2014–2016 – Senior Executive Director of Polyus Gold International Limited,

Since 2016 – General Director of LLC UC Polyus

Since 2016 – General Director of PJSC Polyus

External Appointments: Board Member of Polyus Gold International Limited, PJSC Polyus and PJSC RusHydro.

No participation share in the share of the Company's capital.

Andrey Dyomin

Non-Executive Director

Member of the Strategy Committee

Board member since 2014

Born in 1974

Graduated from Zaporozhye State University, majoring in Applied Mathematics and from the Zaporozhye Institute of Economics and Information Technologies with a degree in Finance.

Experience:

2007–2010 – Deputy Chairman, Member of the Management Board of Federal Grid Company

2010–2012 – Advisor to the General Director on Strategic Development, LLC Mezhregionsbyt

2013–2015 – First Deputy Director General for the Economic Affairs and Finance of PJSC Rosseti

Since 2013 – Member of the Management Board of PJSC Rosseti

External Appointments: Member of the Board of Directors of PJSC Moscow United Electric Grid Company.

No participation share in the share of the Company's capital.

Igor Kamensky

Independent Director

Chairman of the Audit Committee²

Chairman of the Investment Committee

Member of HR and Remuneration Committee

Board Member since 2016

Born in 1968

Graduated from the Moscow State Pedagogical Institute with a degree in Russian Language and Literature.

Experience:

2009–2015 – Managing Director of LLC Renaissance Capital - Financial Consultant

Since 2015 – Managing director of LLC Renaissance Capital Broker

External appointments: Board Member of PJSC Open Investments, Insurance Company Soglasie LLC, PJSC Aeroflot – Russian airlines, and PJSC Corporation VSMPO-AVISMA.

No participation share in the share of the Company's capital.

Sergey Mironosetsky

Non-Executive Director

Member of Investment Committee

Board Member since 2014

Born in 1965

Graduated from Novosibirsk State University with a degree in Economic Cybernetics.

Experience:

2005–2011 – Deputy Director General, Member of the Management Board of JSC SUEK

2009–2013 – General Director, Chairman of the Management Board of JSC SUEK (since 07 September 2011 – LLC Siberian Generating Company)

External Appointments: Board Member of the LLC Siberian Generating Company

No participation share in the share of the Company's capital.

¹ Decision taken by the Board of Directors as of 19 August 2016 (Minutes No. 335 of 22 August 2016).

² Decision of the Board of Directors of 12 July 2016 (Minutes No. 331 of 15 July 2016)

³ Decision of the Board of Directors of 12 July 2016 (Minutes No. 331 of 15 July 2016)

Andrey Murov

Executive Director
Board Member since 2013

Born in 1970

Graduated from St. Petersburg State University majoring in Jurisprudence; underwent a retraining programme in Financial Management at the Inter-disciplinary Institute of Executive Staff Refresher Training and Retraining; graduated from the State University of Civil Aviation majoring in "Organisation of transportations and management on transport (air transport)"; PhD in Economic

Experience:

2007–2012 – General Director of JSC Airport Pulkovo

2012–2013 – Deputy General Director, Acting General Director, Executive Director, and Member of the Management Board of JSC Holding of Interregional Distribution Grid Companies (since 04 April 2013 - JSC Rosseti)

Since 2013 – Chairman of the Management Board of PJSC FGC UES

Since 2015 – Chairman of the Russian National Committee of CIGRE Non-Profit Partnership (RNC CIGRE).

External appointments: Member of the Board of Directors of PJSC Rosseti, PJSC Inter RAO, JSC SO UES, Member of the Board of Trustees of the National Research University: the Moscow Power Engineering Institute, Saint Petersburg State University, Saint Petersburg State University of Economics, Member of the Supervisory Board of the Non-Profit Partnership Global Energy.

No participation share in the share of the Company's capital.

Egor Prokhorov

Non-Executive Director
Board Member since 2016

Born in 1982

Graduated from Saint Petersburg State University majoring in Mathematical Methods in Economics. Ph.D. in Economics.

Experience:

2009–2012 - Head of Corporate Finance of PJSC FGC UES

2011–2013 - General Director of the LLC Index of Energy – FGC UES (concurrently)

2011–2013 - Finance Director of JSC IDGC Holding (concurrently)

2012–2013 - Finance Director of PJSC FGC UES

2013 – Finance Director of PJSC Rosseti

Since 2013 – Deputy General Director for Finance of PJSC Rosseti

External Appointments: Member of the Boards of Directors of PJSC Lenenergo, JSC RDC UES, PJSC IDGC of Siberia.

No participation share in the share of the Company's capital.

Nikolai Roshchenko

Non-Executive Director
Board Member since 2016

Born in 1981.

Graduated from the Tax Academy of the Russian Federation majoring in Jurisprudence.

Experience:

Since 2008 – Head of the Legal Department, Member of the Management Board, and Head of the Legal Department of the Market Council Non-profit Partnership

External Appointments: Board Member of JSC TSA.

No participation share in the share of the Company's capital.

Sergey Sergeyev

Non-Executive Director
Member of the Investment Committee

Board Member since 2016

Born in 1976

Graduated with distinction from the Novocherkassk State Polytechnic University majoring in Industrial and Civil Construction.

Experience:

2009–2013 – Deputy Chairman of the Management Board of FGC UES

2012–2013 – General Director of JSC CECM UES

Since 2013 – Deputy CEO for Capital Construction of PJSC Rosseti

External Appointments: Board member of PJSC Lenenergo, Chairman of the Board of Directors of NIIC MRSK.

No participation share in the share of the Company's capital.

Pavel Snikkars

Non-Executive Director
Chairman of the Strategy Committee¹

Board Member since 2016

Born in 1978

Graduated from the Siberian Academy of Public Service majoring in Public and Municipal Administration and the Siberian University of Consumer Cooperation majoring in Jurisprudence. Ph.D. in Economics

Experience:

2010–2012 – Deputy Director General for Development and Deputy Director General for Market Operations at JSC United Energy Retailing Company.

2012–2013 – Vice Chairman of the Management Board of the Non-Profit Partnership Market Council

Since 2013 – Director of the Electric Power Industry Development Department of the Ministry of Energy of Russia

External Appointments: Board Member of JSC Institute ENERGOSET PROJECT, PJSC Lenenergo, PJSC Inter RAO UES, JSC IDGC of Ural, PJSC TDC; Chairman of the Board of Directors of JSC Financial Settlements Centre.

No participation share in the share of the Company's capital.

Ernesto Ferlenghi

Independent Director
Chairman of HR and Remuneration Committee²

Member of the Audit Committee
Member of the Strategy Committee

Board Member from 2008–2014. Elected to the Board in 2016.

Born in 1968

Graduated from the University of Rome Tor Vergata in the Faculty of Mathematics, Physics and Natural Sciences.

Experience:

2005–2014 – Head of the Representative Office of Eni in Russia, since 2009 – Vice-President of Eni

2010–2014 – Deputy General Director of the JSC Arctic Gas Company

2014–2014 – Advisor to the Chairman of the Management Board of the Renova Group

2014–2015 – Advisor for the business development of Tecnimont S.p.A.

Since 2013 – President of Confindustria Russia: Association of Italian Entrepreneurs in Russia

Since 2014 – Senior Advisor of the ENI Group in Russia

Since 2015 – Senior Advisor for the business development of Saipem S.p.A.

Since 2015 – Consultant of SIIRTEC NIGI Spa

Since 2016 – Consultant of LLC SIAD RUS

Since 2016 – Senior Advisor of Snap S.p.A (oil servicing company)

No participation share in the share of the Company's capital.

In 2016, no transactions with any of FGC UES's shares were made by any Board Members.

¹ Decision taken by the Board of Directors on 12 July 2016 (Minutes No. 331 of 15 July 2016).

² Decision taken by the Board of Directors on 12 July 2016 (Minutes No. 331 of 15 July 2016).

15 YEARS TOGETHER with Russia

Backbone electric grids of Western Siberia (MES Western Siberia)

FGC BRANCH

SERVICE AREA

3 constituent territories of the Russian Federation in the Ural Federal District with a population over 3.5 million people.

PERSONNEL

About 2 thousand people

ASSETS¹

HVTL 12.747 thousand km
86 substations, 220-500 kV
Capacity — about 38.716 thousand MVA

OPERATIONS

Electricity transmission. The branch provides electricity connection between UES of Siberia and UES of Urals.

¹ according to annual performance reports

Key infrastructure projects

2011 500 kV SS Peresvet

Reduction of grid restrictions and enabling new Yugra consumers to connect to the power system;
Increase of output capacity of Surgut power unit – an important segment of Tyumen power system.

2014–2016 220 kV SS Mangazeya with 220 kV HVTL, Urengoy HEPP – Mangazeya

Ensuring the development of critical infrastructure projects – permanent electricity supply to Vankor oil and gas field of PJSC Rosneft, implementation of the next stage of Urengoy SDPP's capacity output scheme;
Control of power shortages in Tazovsky and Krasnoselkupsky districts, elimination of grid restrictions.

2016 500 kV SS Svyatogor with 500 and 220 kV HVTL feeders

Control of the shortage of autotransformer capacities in the Nefteyugansk power area, development and reclamation the Malobalyksk and Prirazlomnoye fields of PJSC Rosneft, Vadelypsk and Salym clusters of oil fields of Salym Petroleum Development oil company;
Provision of the possibility of additional power take-off and technological connection to the energy system of power receiving devices required for the development of the social and utility sector of Nefteyugansk district.

2012 500 kV HVTL, Il'kovo – Njagan'sk SDPP and Njagan'sk SDPP – Lugovaya; 220 kV HVTL, Il'kovo-Njagan'sk SDPP and Njagan'sk SDPP – Krasnoleninsky GPP

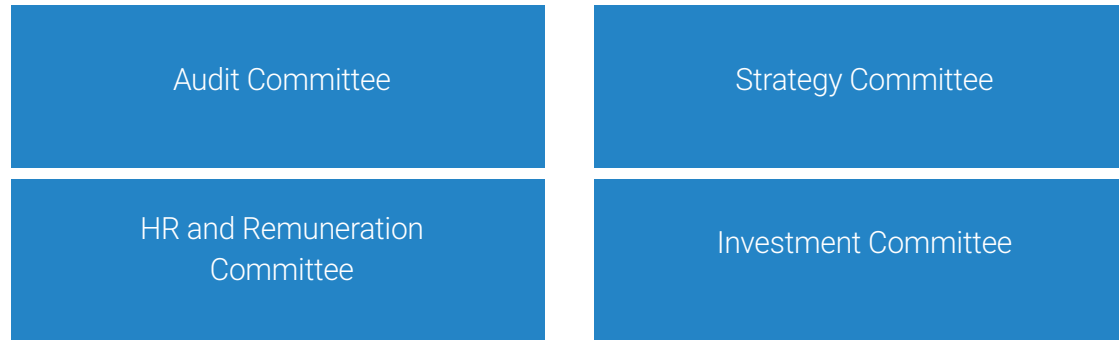
Arrangement of electric grid infrastructure for Nyagan SDPP's capacity output scheme prevented growing power shortages in the Khanty-Mansiysk Autonomous District–Yugra, increased reliability of Urajsk–Njagan' power unit and allowed for intense industrial development in the region.

PHOTOS:

- 1 Vankor oil and gas field
- 2 220 kV HVTL, Urengoy HEPP – Mangazeya
- 3 500 kV SS Peresvet
- 4 Njagan'sk SDPP

Board Committees

At the end of 2016, the four Board Committees that worked to increase the effectiveness of the resolutions taken by the Board of Directors by providing preliminary consideration of the most important issues and by preparing recommendations for the Board, included:



The key role of each Committee is to provide preliminary consideration of the most important issues reserved for the Board, and to develop recommendations that the Board follows when taking resolutions on relevant issues.

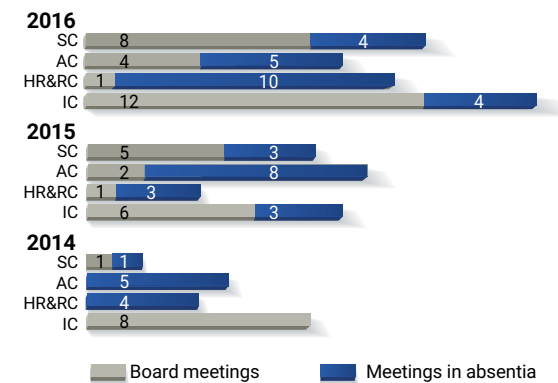
The Committees are completely subordinate to the Company's Board of Directors. The Committees are made up of Board Members and persons suggested by the Board Members whose competence and experience are essential to the work of the Committees. In accordance with best practices and the requirements of the listing rules of the Moscow Exchange, only independent directors can be nominated to the Audit Committee and to the HR and Remuneration Committee. This ensures objective and balanced recommendations.

In 2016, the Company introduced the practice of engaging independent consultants to work with the Audit Committee and Investment Committee of the Board. Thus, corresponding regulations were prepared and approved that are now being tested for possible implementation into the work of the other committees. In addition, some updates were made to the Regulations for the HR and Remuneration Committee, the Investment Committee and the Strategy Committee.

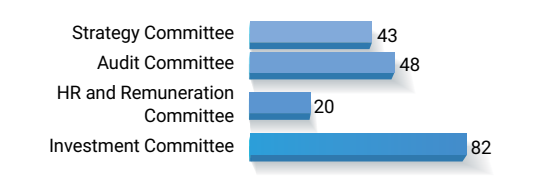


For details on the minutes of the Committees Meetings, see the [Appendix 1](#) hereto.

Statistics of the work of the Board Committees



Issues considered by the Committees in 2016



Audit Committee

The role of the Audit Committee is to assist the Board of Directors in providing efficient control over the Company's financial and business operations.

The key functions of the Committee are:

- controlling the completeness, accuracy, and fairness of the accounting (financial) statements;
- controlling the reliability and effectiveness of the risk management and internal control system and of the corporate governance system, including an assessment of their effectiveness and recommendations on for how they can improve;
- ensuring the independence and objectivity of the Company's internal audit
- assessing the independence of external auditors, their objectivity and the absence of any conflicts of interest, to evaluate candidates for the Company's

external auditors, to make recommendations to the Board of Directors regarding their appointment and remuneration, and to control the quality of the audit and the auditors' report;

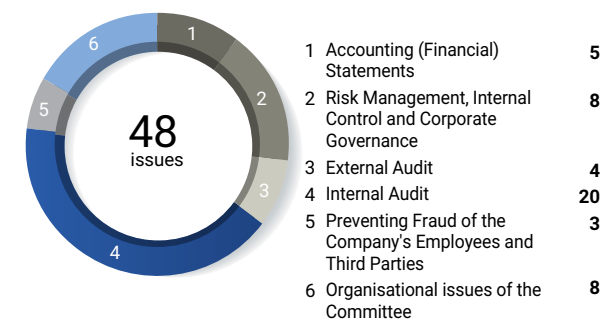
- controlling the efficiency of the potential fraud reporting system on the part of the Company's employees and third parties, as well as any other violations, at the Company.

The Committee's activities are governed by the Regulations on the Audit Committee of the Board of Directors of PJSC FGC UES, a revised version of which was approved by the Board of Directors on 16 November 2015 (Minutes No. 291 of 19 November 2015).

Committee Members in 2016

(Positions as of the Date of Election)	Elected by the Board of Directors on 12 July 2016 (Minutes No. 331 of 15 July 2016)	Elected by the Board of Directors on 21 July 2015 (Minutes No. 279 of 24 July 2015)
I. A. Kamenskoy – Chairman, Independent Director	●	
E. Ferlenghi – Independent Director	●	
P.S. Grachev – Independent Director	●	●
S.N. Mironosetsky – Chairman, Independent Director		●
M.A. Kolesnikov – Non-Executive Director		●

Structure of issues considered by the Audit Committee in 2016



In the reporting period, the Audit Committee considered 48 issues and gave the corresponding recommendations to the Board of Directors.

The key issues:

Accounting (Financial) Statements

- Preliminary approval of the accounting statements for 2015 by the Board of Directors. system of monitoring and control of the contractors' financial stability.
- Recommendations on the Report by the Internal Audit Commission of PJSC FGC UES based on the results of the audit of financial and business operations for 2015. – Review of IFRS's financial statements for 2015 and the subsequent auditor's report.
- Review of the plan of measures to improve the actual

Risk Management, Internal Control and Corporate Governance

- Review of the Report on the Company's key operational risks for 2015. – Review of the report on the Company's key operational risks for H1, 2016.
- Review of the Report on the risk management and internal control system for 2015. – Recommendations on the approval of the Company's internal document "Regulations on The Internal Control System of PJSC FGC UES"
- Approval of the "road map" for arranging the risk management and internal control procedures to prevent and fight corruption.

External Audit

- Review of the external auditor's report on the Company's statements and the audit's results. Company's auditor
- Assessment of the effectiveness of the external audit of the Company's accounting statements. – Recommendations on the auditor's remuneration in 2016.
- Recommendations on the candidate for the

Internal Audit

- Review of the internal auditor's reports on the effectiveness of the Company's internal control and risk management system and of its corporate governance in 2015. – Review of the reports by the Company's Internal Audit Department
- Recommendations on the approval for the arrangement policy of the Group's internal audit function (system). – Recommendations on a candidate for the Head of the Company's Internal Audit Department
- Review of the results of the audit of the Company's functional areas: – Approval of criteria for the assessment of the effectiveness of the Internal Audit Department in 2016
 - Major construction
 - Managing the projects financed from technological connection funds
 - Procurement activities
- Recommendations on the approval of the budget for the Internal Audit Department for 2017
- Recommendations on remuneration to the Head of the Company's Internal Audit Department for 2016

Preventing Fraud on the Part of the Company's Employees and Third Parties

- Review of the results of the Company's anti-corruption monitoring in 2015. Company's Code of Corporate Ethics
- Recommendations on the results of the Company's anti-corruption monitoring for H1, 2016. – Recommendations on the approval of the list and map of the Company's corruption risks
- Recommendations on a new version of the



For more details on the assessment of the external audit of the Audit Committee, see the [Management Report – the External Auditor section](#)

In March 2017, the work of the Audit Committee was assessed by the independent company JSC VTB Registrar as part of the Board's activities assessment. The assessment was conducted by the use of questionnaires that were filled out by members of the Board of Directors and its Committees, and by members of the Company's Management Board, as well as by interviewing certain members of the Board of Directors, Board Committees and the Corporate Secretary of the Company. The work and characteristics of the Audit Committee's members receive the highest grades. However, it should be noted that the Committee is quite objective in its ability to see opportunities to further improve its work.

Internal Audit Assessment

In the reporting period, the Committee often considered the performance of the Company's Internal Audit Department, the methodological support for evaluating its performance, as well as the reports on its performance, in particular.

As a result, the Audit Committee (Minutes No. 47 of 20 April 2016) recommended that the Company's Board recognise that the performance of the internal audit met the requirements of the Corporate Governance Code and the methodological recommendations on the organisation of the work of internal audits at joint-stock companies with state participation.¹

Strategy Committee

The role of the Strategy Committee is to assist the Board of Directors in improving the Company's performance efficiency for the long term.

The Committee's key responsibilities include the preliminary consideration, analysis and elaboration of recommendations to the Company's Board of Directors on the following items:

- evaluating the Company's performance efficiency for the long term;
- approving the Company's Long-Term Development Programme, making amendments thereto and reviewing its progress reports;
- setting out strategic objectives, monitoring the delivery of the Company's strategy and adjusting the exiting development strategy;

- determining the Company's business priorities;
- developing recommendations for the determination of the Company's dividend policy;
- approving the business plan (the adjusted business plan);

The Committee's activities are governed by the Regulations on the Strategy Committee of the Board of Directors of PJSC FGC UES, a revised version of which was approved by the Board of Directors of PJSC FGC UES on 12 July 2016 (Minutes No. 331 of 15 July 2016).

Committee Members in 2016

(Positions as of the Date of Election)

	Elected by the Board of Directors on 12 July 2016 (Minutes No. 331 of 15 July 2016)	Elected by the Board of Directors on 20 August 2015 (Minutes No. 280 of 24 August 2015)
P.N. Snikkars – Chairman, Member of PJSC FGC UES Board of Directors	●	● ²
D.S. Bulgakov – Deputy Head of the Department Expert Centre in the Fuel and Energy Industry of the FSBO Russian Energy Agency (Analytical Centre in the Fuel and Energy Industry)	●	
A.E. Vikhansky – Director of the Department for the Natural Monopoly Relations of LLC MC Polyus	●	
A.A. Germanovich – Advisor to the General Director of CJSC Investment Management	●	
A.A. Demin – Member of PJSC FGC UES Board of Directors, and Member of the Management Board of PJSC Rosseti	●	●

¹ Order No. 249 by Rosimuschestvo dated 4 July 2014.

² Was not the Chairman of the Strategy Committee before 12 July 2016.

	Elected by the Board of Directors on 12 July 2016 (Minutes No. 331 of 15 July 2016)	Elected by the Board of Directors on 20 August 2015 (Minutes No. 280 of 24 August 2015)
O.Yu. Isaev – General Director of PJSC IDGC of Centre	●	
S.Yu. Lebedev – Director of the Strategic Development Department of PJSC Rosseti	●	
E.A. Olkhovitch – Deputy Director of the Department of State Regulation of Tariffs, Infrastructure Reforms and Energy Efficiency of the Russian Federation's Ministry of Economic Development and Trade	●	●
M.G. Tikhonova – Deputy Chairman of the Management Board of PJSC FGC UES, Member of the Management Board of PJSC FGC UES*	●	
M.V. Rusakov – Member of the Management Board, Head of the Department for the Competitive Pricing of Non-Profit Partnership Market Council	●	●
O.V. Shatokhina – Deputy General Director for Economic Affairs of PJSC Rosseti	●	
A.A. Erdyniev – Deputy Director of the Electric Power Industry Development Department, Ministry of Energy of Russia	●	
E. Pherlengi - Independent Director	●	
V.K. Yavorsky – General Director of LLC Tori – Audit	●	
M.S. Bystrov – Chairman, Member of the Board of Directors of PJSC FGC UES		●
N.G. Shulginov – Independent Director		●
A.M. Borisov – General Director of LLC SIP-Energo		●
S.I. Zhuravlev – Vice-President for the Government Relations of JSC Polyus		●
E.N. Miroshnichenko – Director for the Strategic Development of the Strategy and Investment Block of PJSC Inter RAO		●
A.N. Kharin – Deputy Director of the Department for Corporate Governance, Pricing Environment and Auditing of the Fuel and Energy Industries of the Russian Ministry of Energy		●
P.V. Shpilevoy – Director for the Strategic Development of PJSC FGC UES, Head of the Strategic Development Department of PJSC FGC UES		●

Structure of issues considered by the Strategy Committee in 2016



1 Determining Business Priorities	7
2 Determining the Long-Term Development Programme	3
3 The Company's Business Planning	11
4 Management of Subsidiaries and Associates	4
5 Ensuring the Company's participation in other organisations	4
6 Determining the Company's Policy for Transactions with Derivatives and Dividend Policy	2
7 Non-Core Assets Management and Transactioning	6
8 International and Other Cooperation Agreements Not Related to the Company's Standard Business Operations	1
9 Organisational issues of the Strategy Committee	5

In the reporting period, the Strategy Committee considered 43 issues and gave corresponding recommendations to the Board of Directors.

* Elected by the Board of Directors on 24 November 2016 (Minutes No. 346 of 28 November 2016).

The key issues:

Determining Business Priorities

- Standard scenarios for financial and economic interaction with investors in the framework of implementing the investment project on co-financing principles
- Developing (upgrading) the plans (programmes) for reducing operating costs by 10 per cent, including for 2016-2020.
- Amending the terms of contracts for technological connection of electricity generation facilities to electric grids
- Report of PJSC FGC UES on the results of work on capital markets and interaction with rating agencies for 2015
- Sponsorship Fund and Charity Fund of PJSC FGC UES

Determining the Long-Term Development Programme

- Amending the Company's LDP 2019 and the forecast until 2030
- Audit results in 2015 of the Company's LDP for 2015-

The Company's Business Planning

- Business Planning Standard of PJSC FGC UES the consolidated business plan (IFRS) for the Group of Companies FGC UES for 2016 and the forecasts for 2017-2020
- Scenario conditions for the preparation and approval of the Company's business plan for 2017 and forecasts for 2018-2021
- Reports on the implementation of the Company's business plan in 2015 for the first quarter of 2016
- Approving the consolidated business plan (RAS) and Reports on the implementation of the consolidated business plan (RAS) and the consolidated business plan (IFRS) for the Group of Companies FGC UES for various time periods

Management of Subsidiaries and Associates

- Determining the Company's position on items for the Meeting of the Board of Directors of JSC Elektrosetservis UNEG (representatives of PJSC FGC UES) on items for the meeting of the Board of Directors and the General Meeting of Shareholders of JSC R&D Centre of FGC UES
- The new version of the restructuring concept of JSC Kuban Trunk Grids and JSC Tomsk Trunk Grids
- Determining the position of PJSC FGC UES
- Participation of PJSC FGC UES in JSC R&D Centre of FGC UES

Determining the Company's Policy for Transactions with Derivatives and Dividend Policy

- Determining Interest and currency risk management actions, including the usage of derivative financial instruments
- Approving the new version of the Regulation on the dividend policy of PJSC FGC UES

Non-Core Assets Management

- Approving the updated Management Programme for Non-Core Assets of PJSC FGC UES (hereinafter as NCA) and the register of non-core assets updated in accordance with NCA (the new version); participation in JSC Stend, JSC Centrenergoholding, CJSC EnergoRynok and JSC Energotekhnokomplekt;
- The report on NCA progress and the results for the period of 2013-2014 and 9 months of 2015;
- The report on NCA progress and the results for 2015;
- Issues on termination of PJSC FGC UES's
- Approving the Non-Core Assets Disposal Programme of PJSC FGC UES and its Subsidiaries and the updated register (implementation plan) of non-core assets of PJSC FGC UES

International and Other Cooperation Agreements Not Related to the Company's Standard Business Operations

- The report of PJSC FGC UES on applying of the results of the comparative analysis report of the Company's key performance indicators for UNEG's management with the largest foreign electric grid companies in operation of PJSC FGC UES

HR and Remuneration Committee

The HR and Remuneration Committee assists PJSC FGC UES's Board of Directors with the development of an efficient and transparent remuneration system and the development of HR and succession policies, in addition to carrying out preliminary consideration of issues related to HR planning (succession planning) and the professional composition and efficiency of the Board of Directors.

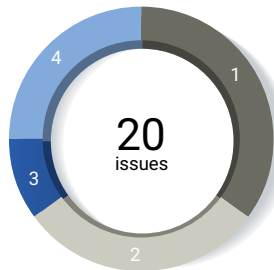
The HR and Remuneration Committee's activities are governed by the Regulations on the HR and Remuneration Committee of the Board of Directors of PJSC FGC UES, a revised version of which was approved by the Board of Directors of PJSC FGC UES

on 03 October 2016 (Minutes No. 341 of 05 October 2016). Amendments made to the last version brought the document in compliance with the Corporate Management Code.

Committee Members in 2016 (Positions as of the Date of Election)

	Elected by the Board of Directors on 12 July 2016 (Minutes No. 331 of 15 July 2016)	Elected by the Board of Directors on 21 July 2015 (Minutes No. 279 of 24 July 2015)
E. Pherlengi – Chairman, Independent Director	●	
I.A. Kamenskoy – Independent Director	●	
S.N. Mironosetsky – Chairman, Independent Director		●
M.A. Kolesnikov – Non-executive Director		●
P.S. Grachev – Independent Director	●	●

Structure of issues considered by the HR & Remuneration Committee in 2016



- 1 Remuneration Payable to Members of the Company's Management and Control Bodies 7
- 2 HR Issues 6
- 3 Improvement of the Corporate Management System and Practices 2
- 4 Organisational issues of the Committee 5

In the reporting period, the HR and Remuneration Committee considered 20 issues and gave the corresponding recommendations to the Board of Directors.

The key issues are shown in the table below:

Remuneration Payable to Members of the Company's Management and Control Bodies

- Recommended approval of the Report on KPI implementation by the senior management of PJSC FGC UES for 2015
- Recommended approval of the Reports on KPI implementation by the senior management of PJSC FGC UES for the first, second and third quarters of 2016
- Recommended consideration of the results of the evaluation of the Board of Directors' efficiency and the self-assessment of the Company's corporate governance quality
- Recommended approval and introduction of methods for the calculation and evaluation of the implementation of quarterly KPIs by senior management
- Recommended amendments to the Company's LDP
- Recommended amendments to the Methods for the calculation and evaluation of the implementation of KPIs by senior management
- Recommended approval of the Regulation on the performance assessment of the Company's Board of Directors

HR Issues

- Recommended consideration of the issue on the Company's Management Board and the approval of candidates for positions in the Company's executive office
- Recommended approval of the candidate for the position of Deputy Chairman of the Management Board of PJSC FGC UES
- Recommended consideration of the issue on candidates for nomination to the management and control bodies of PJSC FGC UES in the framework of implementing the Russian Federation Government Order No. ISh-P13-7597 of 29 October 2011
- Recommended election of a person authorised to approve labour contract conditions, to sign the labour contract, as well as any amendments and supplements to the labour contract, on behalf of the Company together with the Chairman of the Management Board
- Recommended introduction of professional standards and practices into the Company's operations
- Recommended approval of the organisational structure of the Company's executive office

Improvement of the Corporate Management System and Practices

- Recommended amendments to the Regulation on the HR and Remuneration Committee

Investment Committee

The role of the Investment Committee is to assist the Board of Directors in improving and developing the Company's investment policy.

The Committee's key responsibilities include the preliminary consideration, analysis and elaboration of recommendations for the Company's Board of Directors on the following items:

- approving the Company's investment programme, including its adjustment, and reviewing progress reports on its implementation;
- considering internal documents on investment activities, including the standards of the technological and price audit of investment projects;
- reviewing the progress of the Company's specific investment projects;
- approving the innovative development programme

of FGC UES, including the R&D programme, and reviewing progress reports on its implementation;

- determining the Company's procurement policy;
- considering the schemes and development programmes for UES of Russia;
- considering issues related to technological connections to electric grids.

The Committee's activities are governed by the Regulations on the Investment Committee of the Board of Directors of PJSC FGC UES, a revised version of which was approved by the Board of Directors on 12 July 2016 (Minutes No. 331 of 15 July 2016).

Committee Members in 2016

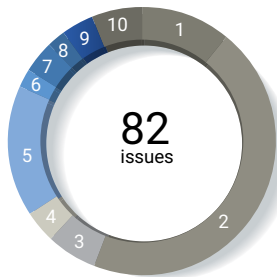
(Positions as of the Date of Election)

	Elected by the Board of Directors on 12 July 2016 (Minutes No. 331 of 15 July 2016)	Elected by the Board of Directors on 20 August 2015 (Minutes No. 280 of 24 August 2015)
I.A. Kamenskoy – Chairman, Board member of PJSC FGC UES, Independent Director	●	● ¹
S.A. Balaeva – Deputy General Director for Investments of PJSC Rosseti	●	●
V. Gritsenko F. – Member of the Presidium of NP OPORA ROSSII	●	
V.A. Domnich – Head of the Department of the State Regulation of Tariffs, Infrastructure Reforms and Energy Efficiency of the Ministry of Economic Development and Trade of the Russian Federation	●	
S.I. Zhuravlev – Vice-President for Government Relations of JSC MC Polyus	●	
A. Ilienکو B. – Member of the Management Board of JSC SO UES, Director for UES Development of JSC SO UES	●	

¹ Was not the Chairman of the Strategy Committee before 12 July 2016.

	Elected by the Board of Directors on 12 July 2016 (Minutes No. 331 of 15 July 2016)	Elected by the Board of Directors on 20 August 2015 (Minutes No. 280 of 24 August 2015)
V.N. Kisilev – Chairman of the Consumer Council of the Government Commission for the Electricity Industry	●	●
R.R. Magadeev – Deputy Chief Engineer of PJSC Rosseti	●	
S.N. Mironosetsky – Board member of PJSC FGC UES	●	●
I.A. Selivakhin – Financial Director of JSC TSA, Advisor of the Chairman of the Management Board of the Non-Profit Partnership Market Council	●	●
S.A. Semerikov – Deputy General Director for the Development and Services of PJSC Rosseti	●	
S.V. Sergeev – Board Member of PJSC FGC UES, Deputy General Director for Capital Construction of PJSC Rosseti	●	
V.C. Skulkin – Deputy Director of the Electric Power Industry Development Department, Ministry of Energy of Russia	●	
R.E. Filimonov – First Deputy Chairman, Member of the Management Board of PJSC FGC UES	●	
V.M. Kravchenko – Chairman of the Committee, Chairman of the Board of Directors		●
A.E. Vikhansky – Director of the Department for the Natural Monopoly Relations of LLC MC Polyus		●
V.A. Goncharov – First Deputy Chairman, Member of the Management Board of PJSC FGC UES		●
I.I. Mirsiyapov – Member of the Management Board, Head of the Strategy and Investment Unit of PJSC Inter RAO		●
E.A. Olkhovitch – Deputy Director of the Department for State Regulation of Tariffs, Infrastructure Reforms and Energy Efficiency of the Russian Ministry of Economic Development and Trade		●
P.N. Snikkars – Deputy Chairman of the Committee, Director of the Electric Power Industry Development Department, Ministry of Energy of Russia		●
V.K. Yavorsky – General Director of LLC Tori – Audit		●

Structure of issues considered by the Investment Committee in 2016



1 Approving and Adjusting the Investment Programme	9
2 Implementing Separate Investment Projects	37
3 Determining the Procurement Policy	5
4 Approving the Innovative Development Programme	3
5 Considering Internal Documents on Investment Activities, including the Standards for the Technological and Price Audits of Investment Projects	13
6 Corporate Management	2
7 Developing the Asset Management System	3
8 Developing Automated Electricity Metering Systems	2
9 Executing Technological Connections to Electric Grids	3
10 Practical arrangements and activities of the Investment Committee	5

In the reporting period, the Investment Committee considered 82 issues and gave corresponding recommendations to the Board of Directors.

The key issues:

Approving and Adjusting the Investment Programme

- Approving the Long-Term Investment Programme of PJSC FGC UES for 2016-2020
- Approving the adjustment of the Company's Investment Programmes for 2015 and for 2016-2020
- Reviewing the reports of the Company's management on the approval of the adjusted Investment Programmes for 2015 and for 2016-2020

Implementing Separate Investment Projects

- Reviewing the progress of certain investment projects
- Considering the results of on-site audits by the Ministry of Energy of Russia
- Reviewing the reports of the Company's management on the commissioning of facilities
- Considering the quarterly reports of PJSC FGC UES on the implementation of the investment programme
- Considering information on the organisation of work with accounts receivable and accounts payable, as well as with bank guarantees in the framework of implementing the Company's Investment Programme

Determining the Procurement Policy

- Approving the Regulations on procurement of goods, works, services for the Company's own needs and introducing amendments and supplements thereto

Approving the Innovative Development Programme

- Approving the Company's Innovative Development Programme for 2016-2020 with an outlook for 2025 and introducing adjustments thereto
- Reviewing the annual report for 2015 on the implementation of the Innovative Development Programme

Considering Internal Documents on Investment Activities, including the Standards for the Technological and Price Audits of Investment Projects

- Approving Scenario Conditions for the preparation of the Company's investment programme
- Approving the Regulations on the investment activities of PJSC FGC UES
- Approving the registration procedure of the investment projects included in the list of investment projects for 2013-2017 with an outlook for 2020
- Approving the Standard of Public Technological and Price Audits of the Company's investment projects
- Approving the list of investment projects of PJSC FGC UES subject to technological and price audits in 2016
- Approving the Annual Report on the technological and price audits of the Company's investment projects in 2015
- Considering the necessity to update other executive documentation of PJSC FGC UES regulating the preparation and implementation of Investment Programmes and projects
- Reviewing the audit results of business processes: Procurement Activities, Project Management, and Capital Construction

Developing the Asset Management System

- Approving the Action Plan until 2019 for reducing the amount of construction in progress
- Approving the Development Plan of PJSC FGC UES's productive asset management
- Approving the Report on the compliance of PJSC FGC UES with the Procedure for the operational acceptance of completed construction facilities of PJSC FGC UES
- Considering the execution of the resolution of the Company's Board of Directors on the participation of PJSC FGC UES in CJSC Phoenix Energo
- Restructuring of the JSC Kuban Trunk Grids and the JSC Tomsk Trunk Grids

Developing Automated Electricity Metering Systems

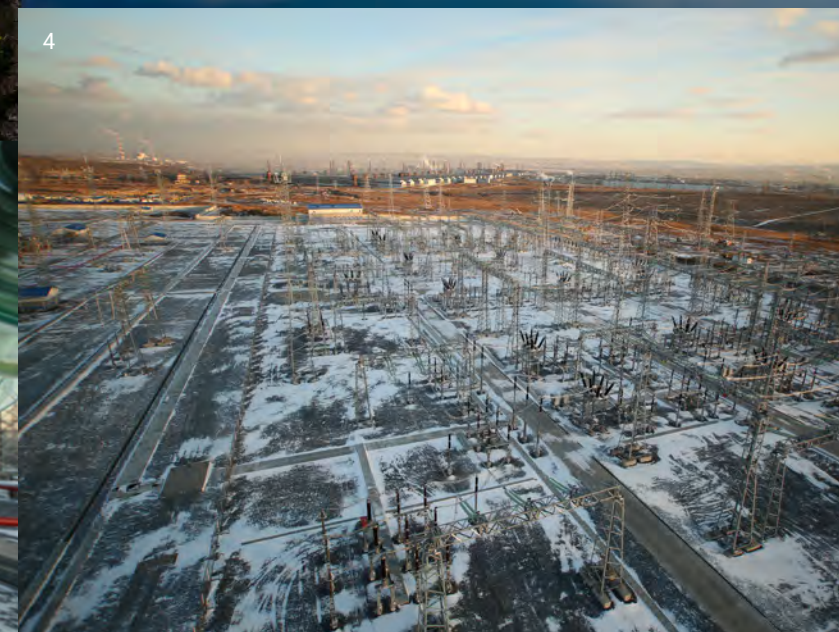
- Considering implementing actions to bring the automated information and measurement system of electricity fiscal metering of PJSC FGC UES in compliance with the technical requirements of the wholesale electricity and capacity market

Executing Technological Connections to Electric Grids

- Considering and approving reports on the consideration of applications for technological connection and the implementation of contracts for technological connection



15 YEARS TOGETHER with Russia



Backbone electric grids of Siberia (MES Siberia)

FGC BRANCH



SERVICE AREA

10 constituent territories of the Russian Federation on the territory of Siberian Federal District with a population over 19 million people.



PERSONNEL

More than 3.3 thousand people



ASSETS¹

HVTL 21.855 thousand km
118 substations, 35–1150 kV
3 TSS, 6-10 kV
Capacity — about 44.194 thousand MVA



OPERATIONS

Electricity transmission. The branch provides inter-state transmission of electricity to Kazakhstan and Mongolia.

¹ according to annual performance reports

Key infrastructure projects

2008 Power line 500 kV, Zarya – Barabinskaya – Tavrisheskaya

Integration of Omsk power system with UNEG in the territory of Russia. In the process of the line construction, a complicated transition across the Irtysh Waterway of 1985 metres long has been performed.

2015–2017 500 kV substation Enisey

Control of electricity shortage in the city of Krasnoyarsk; Ensuring a high level of power security in the region during peak load periods.

2006 Construction of 500 kV SS Aluminievaya

Durability of equipment and buildings of the substation is designed to survive eight-points earthquakes on the Richter scale. The substation has high voltage electric equipment from leading world producers.
Power supply of Khakas aluminium plant;
Improvement of power supply reliability of the Siberian power system.

2006 Technology connection of 110 kV SS Universitet

Development of the Siberian Federal University with over 40,000 students. 220 kV SS Oktyabrskaya, capacity of 400 MBA, supplying electricity to residents of the Oktyabrsky district of Krasnoyarsk, including the student quarter of SFU, became the power centre of the new facility.

PHOTOS:

- 1 Krasnoyarsk
- 2 Krasnoyarskaya HPP
- 3 500 kV substation Enisey
- 4 500 kV substation Enisey

Corporate Secretary

In the framework of implementing the "road map" for introducing the provisions of the Corporate Governance Code into the Company's practice in 2015, the position of the Corporate Secretary was established in the corporate management system of PJSC FGC UES.

The Corporate Secretary's activities are subject to the provisions of the Regulations on the Corporate Secretary of PJSC FGC UES¹. The Corporate Secretary is functionally subordinate to the Board of Directors and is administratively subordinate to the Chairman of the Management Board ensuring his/her sufficient independence from the Company's management.

Responsibilities of the Corporate Secretary:

- Participating in implementing the procedures related to operation of the General Meeting of Shareholders, including control of their implementation;
- Ensuring the efficient performance of the Board of Directors and assisting in organising the operation of the Board of Directors and its Committees, as well as coordinating the exchange of information between them;
- Participating in improving the Company's corporate management system and practices;

- Participating in implementing the Company's information disclosure policy, including control of the information shared on the Company's official website on corporate management and its interaction with shareholders and investors;
- Arranging the Company's interaction with its shareholders, in particular, by participating in the organisation of timely consideration of shareholder statements by the Company's bodies and structural units, in case of the receipt of respective statements to the address of the Corporate Secretary.

Alexey Ozherelyev has been performing the functions of the Company's Corporate Secretary since July 2016.

Alexey Ozherelyev

Corporate Secretary of PJSC FGC UES

Born in 1986

Graduated from the Moscow State University of Economics, Statistics and Informatics (MESI) in 2006 with a degree in Finance and Credit.

Experience:

2009–2011 – worked at the Ministry of Energy of Russia and occupied the positions of the Advisor, Deputy Division Head, Division Head of the Department for Economic Regulation and Property Relations in the Fuel and Energy Complex.

2011–2013 – worked at PJSC FGC UES in the position of Deputy Head of the Corporate Management Department.

2013–2016 – worked at PJSC Rosseti in the position of the Head of the Department for Operation Organisation of Management Bodies.

Since 09 January 2017 until the present, has been working at PJSC Rosseti in the position of the Head of the Performance Organisation Department of Management Bodies, the Board of Directors and interaction with shareholders and investors.

Executive Governance Bodies

The Company's day-to-day operations are managed by both collective and single executive bodies, the Management Board and the Chairman of the Management Board of PJSC FGC UES, which ensures the effective implementation of the Company's tasks and its development strategy.

The executive bodies are entitled to take decisions on all matters of the Company's day-to-day operations, except in matters related to the competence of the

General Meeting of Shareholders and the Board of Directors.



Key Matters Reserved for the Management Board

- Developing and submitting the Company's business priorities and Long-Term plans for their implementation for the Board's consideration
- Preparing the report on implementing the resolutions of the Company's General Meeting of Shareholders and the Board of Directors
- Exercising the powers of the General Meetings of Shareholders (participants) of the Company's wholly-owned subsidiaries
- Submitting business and financial performance

reports of the Company's subsidiaries and associates, as well as information on other enterprises that the Company participates in, for the Board's consideration

- Addressing other issues of managing the Company's day-to-day operations in accordance with the resolutions of the General Meeting of Shareholders, the Company's Board of Directors, as well as matters referred to the Management Board by the Chairman of the Company's Management Board

Key Matters Reserved for the Chairman of the Management Board

- Disposing the Company's property and making transactions on behalf of the Company
- HR issues
- Organising accounting and reporting procedures at the Company
- Publishing and approving the Company's internal executive documents on matters related to his/her competence

- Ensuring implementation of the Company's work plans required to solve its tasks, as well as submitting progress reports on the implementation of the Company's work plans to the Board of Directors

- Solving other issues of the Company's day-to-day operations, except for matters falling within the competence of the General Meeting of Shareholders, the Board of Directors and the Management Board of the Company

Interaction Between Executive Bodies and the Board of Directors

Executive bodies report to the Company's Board of Directors and the General Meeting of Shareholders.

The election of the Chairman of the Company's Management Board and the early termination of his/her powers falls within the competence of the General Meeting of Shareholders of the Company.

The Chairman and Members of the Company's Management Board cooperate closely with the Board of Directors, including on the submission of regular reports on their performance results. For subordination and the efficient monitoring of work of the Company's executive bodies, in accordance with the Company's Articles of Association, the following matters related to the Members and the Chairman of the Management Board are reserved for the Company's Board of Directors:

- election of members of the Company's Management Board (except the Chairman of the Company's Management Board) and the early termination of their powers;
- applying disciplinary measures against the Chairman of the Company's Management Board and incentives in accordance with the applicable law;
- setting the amount of remuneration and compensation payable to the Chairman and the Members of the Company's Management Board;
- coordinating the holding of positions in the management bodies of other companies, as well as other paid positions at other companies.

¹ Approved by the Board of Directors, Minutes No. 279 of 27 July 2015, and Minutes No. 330 of 08 July 2016.

Performance Results of the Management Board for 2016

In 2016, the Company's Management Board held 82 meetings, in which 747 items were considered (592 of which were recommendations made to the Company's Board of Directors).

The number of Board Meetings



The number of issues considered



In the framework of its operation, in the reporting period the Company's Management Board considered the following key items:

- a new version of the Set of Activities ensuring Long-Term financial sustainability and the liquidity of the Company was approved;
- the report on the implementation of the Action Programme to ensure financial sustainability and enhanced economic efficiency of JSC FGC UES for 2014-2015 was considered;
- a consolidated plan for maintenance and repairs for 2017-2021 approved;

- implementation for the concept of the General Service Centre was approved;
- equipment replacement programmes of PJSC FGC UES were approved;
- development strategies for a number of the Company's subsidiaries and associates for 2016-2020 were approved;
- implementation of the maintenance and repairs programme, as well as the Company's non-core assets management programme, was monitored;
- resolutions on the social security of the Company's employees and charitable support were made.

Composition and Biographies of the Management Board's Members

As of the end of 2016, the Management Board of PJSC FGC UES consisted of nine members. All persons comprising part of the Management Board have the required experience and competences for the performance of their functions at the senior level.

Tenure of the members of the Management Board



Personal information on the members of the Management Board of PJSC FGC UES has been disclosed with their consent.

Andrey Murov

Chairman of the Management Board, Member of the Board of Directors

Areas of Responsibility: Management of the Company's day-to-day operations, organisation of work of the Management Board

Management Board Member since 2012

Born in 1970

Education:

Graduated from the St. Petersburg State University with a major in Jurisprudence. Underwent a retraining programme in Financial Management at the Interdisciplinary Institute of Executive Staff Refresher Training and Retraining. Graduated from the State University of Civil Aviation, majoring in Organisation of transportations and management on transport (air transport). PhD in Economics.

Experience:

2007–2012 – General Director of JSC Airport Pulkovo

2012–2013 – Deputy General Director, Acting General Director, Executive Director, Member of the Management Board of JSC Holding of the Interregional Distribution Grid Companies (since 04 April 2013 - JSC Rosseti)

Since 2013 – Chairman of the Management Board of PJSC FGC UES

Since 2015 – Chairman of the Non-Profit Partnership Russian National Committee of CIGRE (RNC CIGRE).

External Appointments: Member of the Board of Directors of PJSC Rosseti, PJSC Inter RAO, JSC SO UES, Member of the Board of Trustees of the National Research University: the Moscow Power Engineering Institute, Saint Petersburg State University, Saint Petersburg State University of Economics, Member of the Supervisory Board of the Non-Profit Partnership Global Energy.

Does not hold any shares in PJSC FGC UES.

Alexander Vasiliev

Deputy Chairman of the Management Board

Areas of Responsibility: Security and Internal Control

Management Board Member since 2014

Born in 1958

Education:

Graduated from the Leningrad Mechanical Institute with a degree in Mechanical Engineering. Graduated from the St. Petersburg State University of Economics and Finance majoring in Economics. Graduated from the St. Petersburg Institute of Foreign Economic Relations, Economics and Law majoring in Jurisprudence.

Experience:

2011–2014 – Deputy Head of the Federal Customs Service

Since 2014 – Deputy Chairman of the Management Board of PJSC FGC UES

Does not hold any shares in PJSC FGC UES.

Vladimir Dikoy

Deputy Chairman of the Management Board – Chief Engineer

Areas of Responsibility: Maintenance and Repairs

Management Board Member since 2013

Born in 1954

Education:

Graduated from the Moscow Power Engineering Institute majoring in the Electric Power Supply of Industrial Enterprises, Cities and Agriculture. PhD in Technical Sciences.

Experience:

2010–2013 – Deputy Chief Engineer of PJSC FGC UES

2013–2017 – Deputy Chairman of the Management Board - Chief Engineer of PJSC FGC UES

Since April 2017 – Advisor to the Chairman of the Management Board of FGC UES

Share held in the Company's ordinary stock – 0.0000219%.

Alexander Zagaratsky

First Deputy Chairman of the Management Board

Areas of Responsibility: Legal and general administrative matters, Staff Management and Development, Corporate and Strategic Management

Management Board Member since 2014

Born in 1976

Education:

Graduated from the St. Petersburg Law Institute of the General Prosecutor Office with a major in Jurisprudence. Graduated from the St. Petersburg Institute for Management and Economics, majoring in State and Municipal Management. Ph.D. in Economics.

Experience:

2007–2013 – Chief of Staff of the Chairman of the St. Petersburg Legislative Assembly

Since 2013 – Deputy Chairman of the Management Board of PJSC FGC UES

Since 2016 – First Deputy Chairman of the Management Board of PJSC FGC UES

Does not hold any shares in PJSC FGC UES.

Alexey Molskiy**Deputy Chairman of the Management Board**

Areas of Responsibility:
Development and Customer Relations

Management Board Member since 2016

Born in 1980

Education:

Graduated from the Moscow Power Engineering Institute, majoring in Electric Energy Systems and Grids and Economics and Company Management.

Experience:

2010–2012 – Head of the Reconstruction Department of PJSC FGC UES.

Since 2012 – Deputy Chief Engineer of PJSC FGC UES

Since 2012 – Deputy Chairman of the Management Board of PJSC FGC UES

Since 2016 – Member of the Management Board of PJSC FGC UES.

External Appointments: Member of the Supervisory Board of JSC IPS SakRusenergo, Non-Profit Partnership Market Council, Chairman of the Board of Directors of JSC CIUS UES, JSC APBE, JSC Kuban Trunk Grids, JSC Tomsk Trunk Grids, the Board Member of Non-Profit Union ENERGOstroy, Member of the Board of Directors of CJSC TaigaEnergoStroy.

Does not hold any shares in PJSC FGC UES.

Nikolay Pozdnyakov**General Director of the Subsidiary of JSC CIUS UES that is of high importance to PJSC FGC UES**

Management Board Member since 2014

Born in 1979

Education:

Graduated from the Moscow State University majoring in Physics. Also holds a degree in Economics from the Higher School of Economics.

Experience:

2009–2013 – Head of the Investment Programme Monitoring and Support Division of the Investment Planning and Reporting Department, Head of the Investment Planning and Reporting Department of PJSC FGC UES

2013–2014 – Deputy General Director for Investments of JSC Rosseti

2014–2016 – Deputy Chairman of the Management Board of PJSC FGC UES

Since 2014 - General Director of JSC CIUS UES

External Appointments: General Director, Member of the Board of Directors of JSC CIUS UES.

Share held the Company's ordinary stock – 0.0000938%.

Sergey Terebulin**Deputy Chairman of the Management Board**

Areas of Responsibility:
Economy, finance and subsidiaries

Management Board Member since 2016

Born in 1978

Education:

Graduated from the Financial Academy under the Government of the Russian Federation, majoring in Finance and Credit. Ph.D. in Economics.

Experience:

2006–2014 – Head of the Corporate Finance Department of JSC MC HydroOGK and JSC RusHydro

2014–2016 – Director of the Corporate Finance Department of PJSC RusHydro

2016 – Advisor to the Chairman of the Management Board of PJSC FGC UES

Since 2016 – Deputy Chairman of the Management Board

External Appointments: Member of the Board of Directors of PJSC RAO Energy Systems of the East, JSC Power Distributing Company RusHydro, Member of the Board of Trustees of the GALCHONOK Charity Fund supporting children with organic lesions of the central nervous system.

Does not hold any shares in PJSC FGC UES.

Members of the Management Board did not make any transactions with the shares of PJSC FGC UES in 2016.

Members of the Management Board were not provided with any loans (credits) in 2016.

Maria Tikhonova**Deputy Chairman of the Management Board**

Areas of Responsibility:
Corporate and Strategic Management

Management Board Member since 2013

Born in 1980

Education:

Graduated from the Volga-Vyatka Academy of Public Service, majoring in Public and Municipal Administration. Holds an MBA in Finance from the Higher School of Economics. Ph.D. in Economics

Experience:

2008–2012 – Head of the Corporate Management and Economic Analysis Unit of the Department for Economic Regulation and Property Relations, the Deputy Director of the Department, the Director of the Department for Economic Regulation and Property Relations in the Fuel and Energy Complex of the Russian Ministry of Energy

Since 2013 – Deputy Chairman of the Management Board of PJSC FGC UES

Does not hold any shares in PJSC FGC UES.

Roman Filimonov**First Deputy Chairman of the Management Board**

Areas of Responsibility:
Development and Customer Relations, Investments and Innovative Development, IT operation and development, Procurement management, and Operational Control

Management Board Member since 2016

Born in 1968

Education:

Graduated from the Military Engineering Institute named after A.F. Mozhayskiy holding the Order of the Red Banner, with a major in engineering. Received additional vocational education at the North-Western Academy of State Service, majoring in State and Municipal Management.

Experience:

2009–2012 – Vice-Governor of St. Petersburg

2012–2013 – Deputy Chairman of Government of the Moscow Region

2013–2015 – Director of the Construction Department of the Russian Ministry of Defence

2015–2016 – Head of the Central Department for Track Maintenance of JSC Russian Railways

2016 – Advisor to the Chairman of the Management Board of PJSC FGC UES

Since 2016 – First Deputy Chairman of the Management Board of PJSC FGC UES

Does not hold any shares in PJSC FGC UES.

In accordance with the Company's Articles of Association, the labour contract with members of the Company's Management Board is signed for three

years and the labour contract with the Chairman of the Management Board on behalf of the Company is signed for five years.

Changes to the Membership of the Management Board in 2016

Following the resolution of the Board of Directors on 02 September 2016 (Minutes No. 337 of 05 September 2016), the powers of the following members of the Company's Management Board were terminated early: Maria Pichugina, Valery Goncharov, Dmitry Shishkin.

Following the resolution of the Board of Directors on 27 October 2016 (Minutes No. 344 of 31 October 2016), Roman Filimonov and Alexey Molskiy were elected as members of the Company's Management Board. Following the resolution of the Board of Directors on 21 December 2016 (Minutes No. 349 of 23 December 2016), Sergey Terebulin was elected as a member of

the Company's Management Board.

Following the resolution of the Board of Directors on 27 October 2016 (Minutes No. 344 of 31 October 2016), a labour contract for the new term was signed with the Company's Management Board Member Maria Tikhonova.

Following the resolution of the Board of Directors on 02 September 2016 (Minutes No. 337 of 05 September 2016), a labour contract for the new term was signed with the Company's Management Board Member Vladimir Dikoy.

Remuneration for Members of the Board of Directors and Governing Bodies

Remuneration System for Members of the Board of Directors

In accordance with recommendations of the Corporate Management Code, the Company's policy for remuneration and the reimbursement of expenses (compensation) of Board Members is set by the Regulations on Remuneration and Compensation Payable to Members of the Board of Directors of PJSC FGC UES¹.

The practices applied in the Company for the determination of remuneration and compensation payable to Members of the Board of Directors comply with the transparency and reporting principles and consider the roles of the above-stated persons in the Company's overall performance. Operation of the HR

and Remuneration Committee provides increased efficiency and transparency to the existing policy.

The key aspects of the remuneration system are as follows:

- Remuneration is paid in a lump-sum payment following the results of the work of the Company's Board Members for the corporate year, from their election until the termination of their powers;
- The decision to pay remuneration is made by the Company's annual General Meeting of Shareholders.

Remuneration Calculation. In order to increase the involvement of the Board members in the Company's operation and their motivation to achieve the high financial indicators set by the Company, the amount of remuneration payable to members of the Board of Directors depends on the Company's financial results. Remuneration is calculated on the basis of the basic part of remuneration (R_{BAS}), which is determined depending on the Company's revenue² for the financial year, and is prior to the year of the remuneration payment to a Board Member.

Revenue for the Financial Year	Amount of the Basic Part of Remuneration
over RUB 200 bn	RUB 1,000,000
over RUB 30 bn	RUB 900,000
over RUB 10 bn	RUB 800,000
over RUB 1 bn	RUB 700,000
over RUB 600 mln	RUB 600,000

Actual remuneration payable to a Member of the Company's Board of Directors, following the results of the corporate year, is calculated by the following formula:

$$R_{ACT} = R_{BAS} \times 100/130 \times (a / b),$$

in which:

R_{ACT} – Actual remuneration;

R_{BAS} – Basic remuneration;

a – The number of meetings of the Board of Directors (irrespective of their form), in which the Board Member attended and of which were held in the corporate year;

b – Total number of meetings of the Board of Directors held in the corporate year.

Remuneration payable to each Member of the Board of Directors for their participation in one meeting for the corporate year 2015-2016 amounted to: $R_{ACT} = 900,000 \times 100/130/52 = \text{RUB } 13,313.61$

Increments. The remuneration of the Chairman of the Board of Directors increased by 30%. The following increments were set to be paid to the Members of the Board of Directors for their work in committees: 20% to the chairman of the committee, and 10% to members of the committee. The maximum amount of remuneration payable to each Member of the Board of Directors, in consideration of different increments, was set at RUB 900,000. The decision on the payment of remuneration to the Board Members following the results of 2016 will be made by the Annual General Meeting of Shareholders.

Remuneration Payable to Members of the Board of Directors for 2016 for Participation in the Operation of the Board of Directors (RUB thousand)³

Oleg Budargin	466.0
Maxim Bystrov	766.9
Pavel Grachev	814.8
Andrey Dyomin	746.9
Boris Kovalchuk	519.2
Mikhail Kolesnikov	814.8
Vyacheslav Kravchenko ⁴	0
Sergey Mironosetsky	858.7
Andrey Murov ⁵	0
Sergey Shmatko	612.4
Nikolay Shulginov	717.6
TOTAL	6,317.3

Remunerations of the members of the Board of Directors⁶, RUB thousand

2016	6,317.3
2015	6,541
2014	

Compensations. Regulation on the payment of remuneration and compensation to the Board Members of PJSC FGC UES also includes the payment of any actual expenses to Board Members, including travel costs to an from the location of the meeting of the Board of Directors and committees, accommodation costs, and any other expenses related to the Company's operation. No compensations were paid to the Board Members in 2016.

Remuneration Payable to Certain Committee

Members of the Board of Directors. Regulations on the payment of remuneration and compensation to the committee members of the Board of Directors of PJSC FGC UES that concern remuneration payments to committee members who are not Board Members, to persons with whom the Company has signed employment contracts, and to any persons for whom the receipt of any payments from commercial organisations is legally restricted or prohibited, was approved in 2015.

Remuneration for participation in each meeting is paid to the stated committee members on a quarterly basis. The amount of remuneration is equal to three minimum monthly wage rates for a first category worker as set by the sectoral tariff agreement of the Russian Electric Energy Complex on the date of the meeting. Remuneration to the Committee Chairman increased by 50%.



For more information about KPI system, the fulfilment of KPIs in the reported year and the targets for 2017, please see the [Strategic Report, Market Review – Key Performance Indicators section](#).

Remuneration System of the Chairman and Members of the Management Board

In accordance with the best practice, the remuneration system for members of the Company's executive bodies is comprised of both fixed and variable parts that are related to the fulfilment of top managers' KPIs. Such an approach motivates the members of the Management Board to achieve their strategic goals and thus contribute to the growth of the Company's value.

The remuneration system for the Company's executive bodies is stipulated by the Provision on Employment Agreements and the Payment of Remuneration and Compensation to Senior Management of PJSC FGC UES.⁸

The major quarterly KPIs taken into consideration when the amount of remuneration to the senior management is set include:

KPI	Weight
Quarterly KPIs	
Absence of increase in major accidents	40%
Absence of increase in the number injured in accidents	40%
Yearly KPIs	
Reduction of operating expenses (costs)	100% (essential condition for bonus payment)
Innovation activity efficiency	20%
Return on invested capital (ROIC)	15%
Total shareholder return (TSR)	15%

The total remuneration paid to committee members of the Board of Directors of PJSC FGC UES (who are not simultaneous members of the Board of Directors) for 2016 amounted to RUB 3,728.2 thousand.

Compared to 2015, the significant growth in the remuneration amount paid to committee members of the Board of Directors in 2016 was the result of an increase in the numerical composition of committees

Remunerations of the committee members of the Board of Directors*, RUB thousand

2016	3,728.2
2015	997.1
2014	810.6

* Who are not simultaneously members of the Board of Directors.

held by the Company's Board of Directors and the number of committee meetings of more than 1.5 times, as well as the result of the quarterly indexation of the minimum monthly rate for first category workers, forming the basis for the calculation of the remuneration amount.

Remuneration is comprised of both fixed (salary) and variable (bonuses) parts. The bonus amount predominantly depends on the top managers' achievement of KPIs. The variable part is comprised of quarterly and yearly bonuses (according to the results of achieved quarterly and yearly KPIs correspondingly). If any KPI is not achieved, the bonuses of all members of the Management Board, including that of the Chairman of the Management Board, are reduced by a certain per cent depending on the KPI's weight.

The conditions of the labour contract with the Chairman of the Management Board, on behalf of the Company, are established by the person authorised by the Board of Directors of FGC UES. The conditions of the labour contracts for Members of the Management Board are determined on behalf of the Company by the Chairman of the Management Board, as instructed by the Board of Directors.

The Board of Directors approves the Company's KPI targets (adjusted values) and reports on their fulfilment, on the basis of which bonuses are awarded to the CEO and Members of the Management Board. In 2016, the Board of Directors made resolutions on the approval of the quarterly fulfilment of KPI reports (1st and 2nd quarters: Minutes No. 342 of 13 October 2016 from the meeting of 10 October 2016; 3rd quarter: Minutes No. 350 of 28 December 2016 from the meeting of 26 December 2016).

¹ Approved by the Resolution of the Annual General Meeting of Shareholders of PJSC FGC UES on 26 June 2015 (Minutes No. 16 of 30 June 2015).

² Calculated under RAS.

³ Other types of remuneration, including the reimbursement of expenses, were not paid.

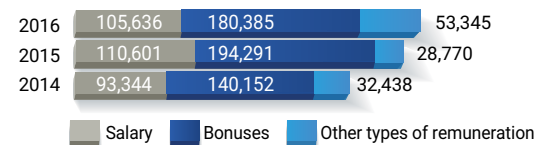
⁴ Remuneration was not paid due to the fact that this Board Member is a public servant.

⁵ Remuneration was not paid due to the fact that this Board Member is also the Chairman of the Company's Management Board.

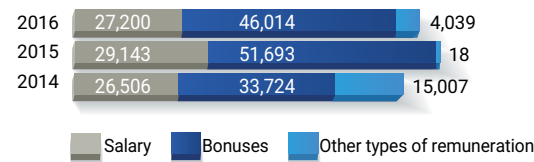
⁷ Approved by the Resolution of the Board of Directors, Minutes No. 280 of 24 August 2015.

⁸ Approved by the Board of Directors, Minutes No. 105 of 17 June 2010.

Remuneration of the members of the Management Board, including the Chairman of the Management Board¹, RUB thousand



Remuneration of the Chairman of the Management Board, RUB thousand



Information on remuneration to the members and Chairman of the Management Board are disclosed on the website of PJSC FGC UES in the Annual Report.

QUESTION & ANSWER



Alexander Zaragatsky
First Deputy Chairman of the Management Board, Member of the Management Board

What mechanisms for motivating the management are applied in the Company in order to add to the Company's overall value and ensure the Long-Term growth of shareholder value?

We use a management motivation system based on the achievement of KPIs set by the Board of Directors. It is worth mentioning that the fulfilment of most indicators provides an influence on adding to the Company's overall value and the Long-Term growth in shareholder value. However, the most significant indicators in this direction, with a total weight of 30% of the annual bonus paid to the Company's management, are the indicators of Total Shareholder Return (TSR) and Return On Invested Capital (ROIC).

TSR reflects the relative annual growth of the weighted average price of the Company's shares, with

dividends accrued on the shares, and exceeds the amount of change in the MOEX RCI index (the share index of companies with regulated operations) for the respective period by a positive amount set by the Company's Board of Directors.

ROIC reflects the operating profit and return on capital invested into the Company's core activities (as by determined by the ratio of the annual operating result to the amount of equity and non-current borrowings as of the beginning of the period).

Risk Management, Internal Control and Internal Audit

The Risk Management and Internal Control System is an important component of the Company's corporate management system, including a number of procedures, methods and mechanisms aimed at the provision of reasonable guarantees for the achievement of the Company's goals in the following directions:

- The effectiveness and efficiency of activity arrangements;
- The Company's compliance with legal requirements and by-laws;
- Preventing any illegal actions taken by the Company's employees or third parties in relation to the Company and its assets;
- The reliability, completeness and timely preparation of all types of the Company's statements;
- Achievement of the Company's strategic goals.

¹ The information includes the remuneration of all the Board members, taking into account changes in membership of the Management Board in 2014, 2015, 2016.

Risk Management

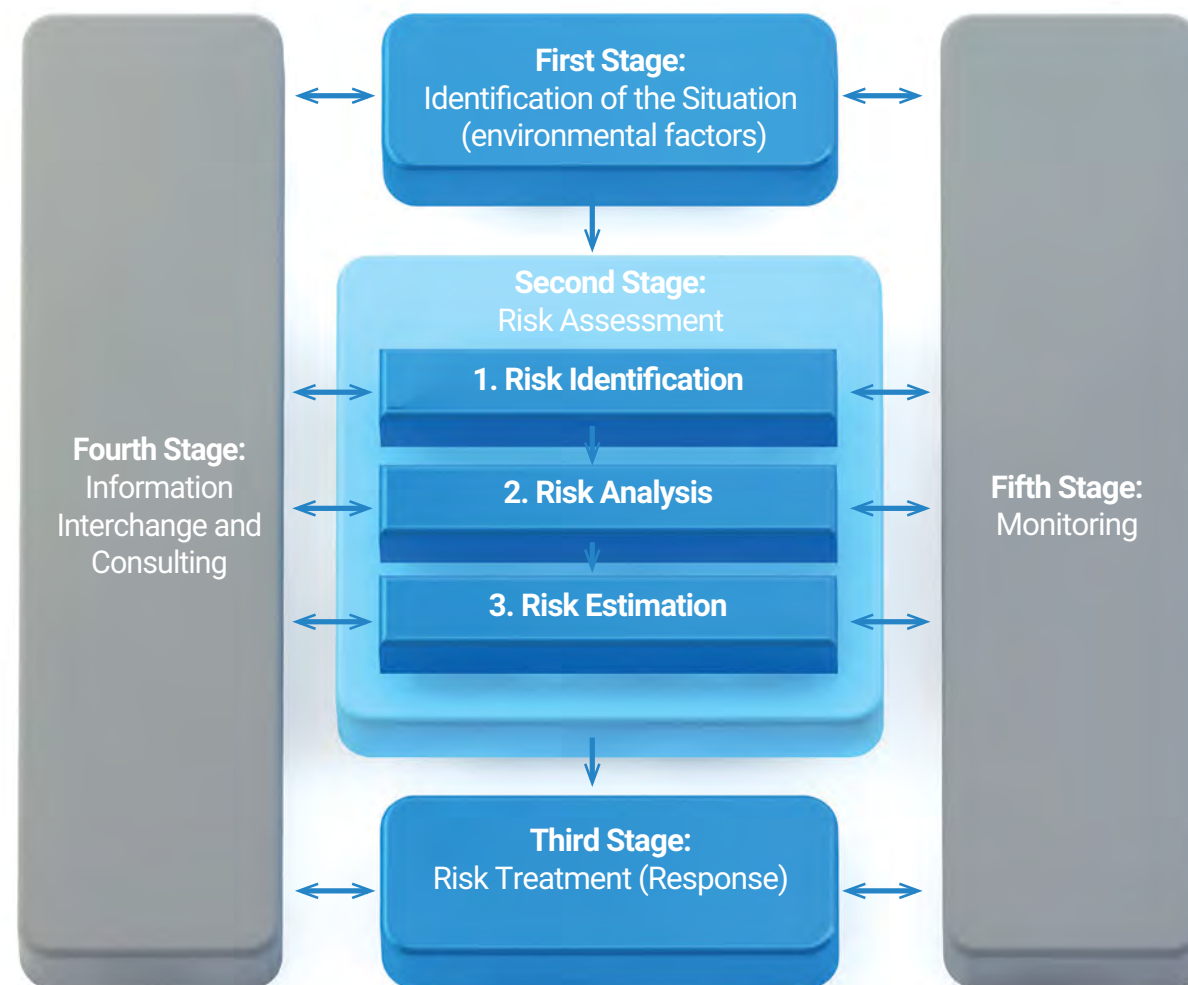
The Risk Management System is an element of the Company's risk management and internal control system. The target of the Risk Management System is to ensure the Company's stable and continuous functioning and its development by means of the timely identification, assessment and efficient management of risks that threaten the Company's efficient business operation and reputation, employee health, environment

and property interests of shareholders and investors. The Risk Management System unifies mechanisms and instruments for the development, introduction, monitoring, review and continuous improvement of risk management processes. The activities in this area are guided by the Regulation on the Risk Management System².

Key Principles of Risk Management System:

- continuity and integrity;
- goal orientation;
- integration into management;
- balance between risks and earnings;
- uncertainty;
- consistency;
- information quality;
- involvement and leadership;
- assignment of risk management responsibilities;
- efficiency;
- cross-functional networking;
- reasonable confidence;
- adaptability;
- continuous improvement.

Organisation of the Risk Management Process at the Company



² Approved by the Resolution of the Board of Directors of 16 November 2015 (Minutes No. 291 of 19 November 2015). Changes were introduced by the Resolution of the Board of Directors of 12 December 2016 (Minutes No. 347 of 13 December 2016).



The response depends on the relevance of the risk (in accordance with its identified risk priority), the impact on the likelihood and the effect of a given risk, the costs of risk materialisation, and the benefits of the risk.

Participants of the Risk Management System

Participant of the Risk Management System	Their Key Responsibilities in the Risk Management System
The Board of Directors	<p>Determines the principles and approaches to the organisation of the Risk Management System;</p> <p>Approves the approaches to identifying the risk's priority, its values and their review frequency;</p> <p>Considers matters concerning the operation of the Risk Management System, including on the basis of the reports: on the operation of the Risk Management System by the Chairman and Members of the Management Board; on the assessment results of its actual status, and the reliability and efficiency of the Risk Management system by the Internal Audit Department.</p>
Audit Committee of the Board of Directors	<p>Considers matters on the operation of the risk management system prior to their consideration by the Board of Directors.</p>
Chairman of the Management Board and the Management Board	<p>Ensures the establishment and maintains the sound operation of the Risk Management System;</p> <p>Responsible for implementing the resolutions of the Board of Directors on the Risk Management System;</p> <p>Submits operation reports on the Risk Management System to the Board of Directors after their preliminary consideration by the Audit Committee;</p> <p>Shares responsibility for the particular risk management procedures among the heads of the Company's structural units.</p>
Internal Control and Risk Management Department	<p>Performs the general coordination and operational control of the risk management processes;</p> <p>Develops methodology documents and arranges risk management training for the Company's employees;</p> <p>Performs analysis of the Company's risk portfolio;</p> <p>Compiles consolidated reports on risks;</p> <p>Coordinates risk management to prevent and fight corruption;</p> <p>Consults executive bodies, the heads of the structural units and the Company's employees on the risk management process and anti-corruption matters;</p> <p>Assists risk owners in the development of internal documents and measures aimed at preventing and fighting corruption;</p> <p>Arranges risk management training for the Company's employees.</p>

Internal Audit Department

Performs the regular and independent review of the reliability and effectiveness of the Risk Management System.

Risk Owners (Heads and Structural Units)

Develop, record, implement, monitor and improve the Risk Management System, including the identification and assessment of risks and the development and application of risk response measures;

Report on the operation of the Risk Management System to the Management Board and its Chairman through the Internal Control and Risk Management Department.

Development Areas of the Risk Management System

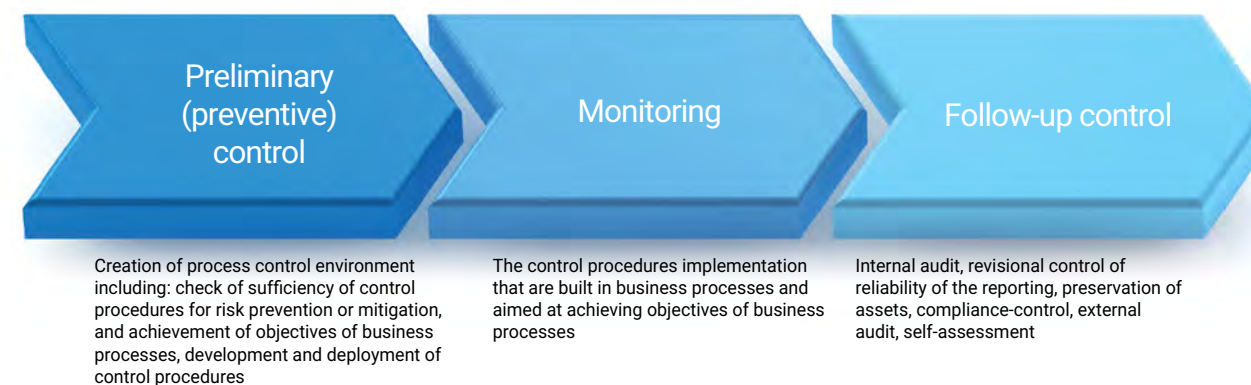
Key Development Activities of the Risk Management System in 2016	Development Plans for the Risk Management System
<ul style="list-style-type: none"> – Methodology documents on risk management approved¹; – Guidelines for the planning and implementation of risk management measures approved²; – The operational risk register³ was approved; operational risk management measures were identified, assessed and developed in accordance with the effective methodology; Summary of operational risk is considered by the Management Board on a quarterly basis; – Standard regulations on the interaction of the Internal Control and Risk Management Department and the subsidiaries of PJSC FGC UES for the organisation of the Internal Control and Risk Management System's operation were approved;⁴ Subsidiaries develop action plans for the Internal Control and Risk Management System (on a yearly/ quarterly basis). 	<ul style="list-style-type: none"> – Development of the risk management system at branches and subsidiaries of the Company; – Integration of anti-corruption risks into the Company's Risk Management System; – Assessment of risks included into the Long-Term Development Programme with the introduction of indicated risks into the risk register (risk map) of the Company; – Training in the operation of the Risk Management System for the Company's management.

Internal Control

The Internal Control System is part of the risk management and internal control system and covers all of the Company's business directions. Control procedures are executed on a regular basis for all of the Company's processes (business directions) at all management levels and are aimed at the provision of guaranteeing the reasonable achievement of goals in the following directions:

- Effectiveness and efficiency of the Company's activities and protecting the Company's assets;
- Compliance with the legal requirements applicable to the Company and its internal regulations, including for business facts and accounting purposes;
- Reliability and the timely submission of accounting (financial) and other statements.

Internal Control System Operation Scheme



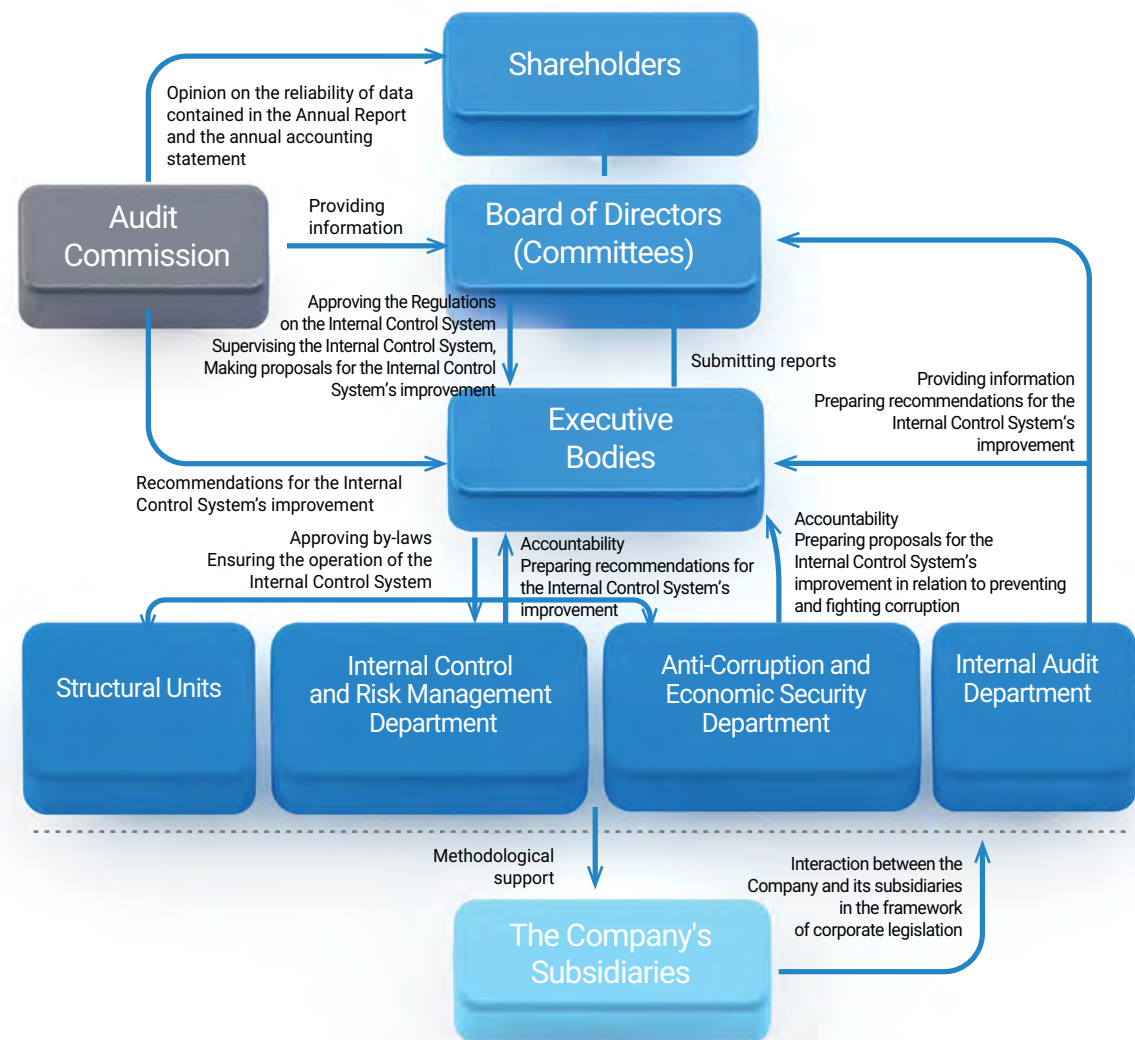
¹ PJSC FGC UES Order No. 86 of 21 March 2016.
² PJSC FGC UES Order No. 373 of 12 October 2016.
³ PJSC FGC UES Order No. 428 of 24 November 2016.
⁴ PJSC FGC UES Order No. 300 of 29 August 2016.

Regulation on the Internal Control System of PJSC FGC UES¹ as approved by the Board of Directors is currently in effect at the Company. The Regulations on the Internal Control System determines the goals, operational principles and elements of the Company's Internal Control System, its main functions and the responsibility of the Internal Control System's

participants and the efficiency assessment procedure for the Internal Control System.

In order to implement the Regulations on the Internal Control System, a Programme ("road map") for improving the quality of the Internal Control System of PJSC FGC UES until 2018 has been developed and implemented by the Company².

Interaction Between the Participants of the Internal Control System



For a detailed description of the key responsibilities of the Internal Control System's participants, please refer to the Appendix 1 hereto

The Company's Internal Control System is operated in accordance within the model of "three defence lines":

1st defence line – Consists of the management bodies, the management bodies of branches, the Company's units and divisions for implementing control procedures by virtue of their responsibilities and job duties; the Heads of the Executive Office and the Company's branches are responsible for the achievement of results, the efficiency of the Internal Control System, their procedures by means of their proper organisation and the formalisation and supervision of their implementation by subordinates; and executors of control procedures who implement them in accordance with their job descriptions and the set regulatory documents.

2nd defence line – Consists of risk management, legal review, economic security, quality control, and compliance control.

The Company's structural units that perform the functions of the second defence line exercise additional control over all structural units of the Company in areas requiring special attention (that is, those especially prone to risks).

3rd defence line – The Internal Audit, whose function is to present the Board of Directors and top management with an independent and objective assessment of the risk management, internal control and the corporate management systems using a risk-based approach. The Internal Audit monitors the activities at the 1st and 2nd defence lines.

QUESTION & ANSWER



Igor Feoktistov
Internal Control Director

Did the assessment carried out in 2016 comply with the standards for assessing the effectiveness of the Internal Control and Risk Management System approved in the end of 2015? How were the assessment results used?

The internal auditor carried out the efficiency audit of the Internal Control and Risk Management System following the results of 2016. The assessment was conducted in five components: the control environment, risk management, control procedures, information and communication and monitoring procedures.

When developing the action plan aimed at the development and improvement of the Internal Control and Risk Management System, the results of the assessment of the Internal Audit were taken into consideration; the action plan may be adjusted, if necessary. Implementation of the plan is monitored on a monthly basis.

Development Directions for the Internal Control System

The following main development actions for the Company's internal control system were implemented in 2016:

- Requirements for formalising control over the Company's business processes were developed;
- Control procedures for the processes of capital construction, the management of projects financed by means of technological connection and procurement activities were developed and formalised;
- Efficient control procedures over business process accounting, tax accounting and the preparation of accounting (financial) statements were implemented;
- An analysis of the core activity and management processes for their effectiveness and the sufficiency of their control procedures was started.

Following the results of the independent efficiency assessment of the Internal Control System for 2016, the maturity level was estimated at 4.3.

An independent internal efficiency assessment of the Internal Control System was conducted by the Company's internal auditor and no external independent assessment was made. The efficiency of the Internal Control System following the results of 2016 was considered at the Meeting of the Board of Directors³, with prior discussion of this item by the Audit Committee of the Board of Directors⁴.

The following measures aimed at the improvement of the Internal Control System have been planned for further implementation of the Internal Control System Development Strategy in 2017:

- Approval of the control matrices by all business processes (business directions) of the Company by their process owners;
- Approval and introduction of the implementation procedure for the Regulation on the Company's Internal Control System;
- Training of the Company's management on building the Internal Control System.

The Company performs an internal efficiency assessment of the Internal Control System, its conformance with the target state and maturity levels. The Company determined six levels of maturity for the Internal Control System (from 1 "zero" to 6 "high").

¹ Decision of the Audit Committee of the Board of Directors of 08 December 2016 (Minutes No. 52 of 12 December 2016).
² Approved by the Order No.16 of PJSC FGC UES on 20 January 2016, updated by the Order No. 388 of PJSC FGC UES on 25 October 2016.

³ Minutes No. 362 of 14 April 2017.
⁴ Minutes No. 58 of 07 April 2017.

Internal Audit

The purpose of the Internal Audit is to assist the Board of Directors and the Company's executive bodies with increasing the efficiency of the Company's management, improving its business by means of using a systemic and sequenced approach to the analysis and assessment of the risk management, internal control and corporate management systems as instruments to ensure reasonable assurance that the Company's goals will be achieved.

The Internal Audit Department is a unit responsible for all internal audit functions at the Company.

The number of employees performing the functions of the internal audit amounted to 16 persons in 2016.

The Internal Audit Department functionally reports to the Company's Board of Directors, meaning that the Board of Directors controls and arranges the operation of the Internal Audit Department, including the approval of the Regulation on the Internal Audit, approval of the work plan and budget for the Internal Audit Department, the approval of a candidate for the position of Head of the Internal Audit Department and the termination of his/her powers, the determination of remuneration arrangements for the Internal Audit Department Head, as well as the consideration of significant limitations that might adversely affect the performance of the Internal Audit's function.

on 03 March 2016 and provided for the execution of 52 audits.

The work plan for the Department for 2017 was approved by the Board of Directors of PJSC FGC UES on 20 February 2017 and provided for the execution of 49 audits.

In 2016, the Internal Audit Director attended the meetings of the Board of Directors, the Audit Committee of the Board of Directors, and the Company's Management Board on the Internal Audit, including the submission of reports following the

results of the performed audit and the submission of the Company's drafted internal audit documents for consideration.

Following the results for 2016, a questionnaire survey among the members of the Audit Committee of the Board of Directors was held for the first time in order to assess the Internal Audit's performance. Following the results of the questionnaire, the areas for improving the interaction between the Internal Audit Department and the Audit Committee of the Company's Board of Directors were determined.

How often do the Board of Directors and the executive bodies receive Internal Audit reports?

In accordance with the Regulation on the Internal Audit of PJSC FGC UES, the reports on the results of the Department's operation are mainly submitted to the Company's Board of Directors only after their preliminary consideration by the Audit Committee.

For example, in 2016 the Internal Audit Department submitted 5 audit works for consideration to the Board of Directors of PJSC FGC UES, with their prior consideration by the Audit Committee of the Board of Directors of PJSC FGC UES.

Apart from that, the reports on the execution of the work plan and the performance results of the Internal Audit Department, including, amongst others, information on execution of the work plan for the Internal Audit, the most significant violations and defects revealed by the internal auditor, the execution of corrective actions for the liquidation of violations

and defects previously revealed and the headcount and expenses of the Internal Audit Department, are submitted to the Audit Committee of the Board of Directors on a quarterly basis.

The report on the execution of the Internal Audit work plan and its performance results following the yearly results is considered by the Company's Board of Directors after its preliminary consideration by the Audit Committee of the Company's Board of Directors.

In 2016, the Internal Audit Department also conducted 4 audit works on instructions for the Company's executive bodies. As the audit information was initiated by the Chairman of the Company's Management Board, the audit results were submitted for the consideration of the Chairman of the Company's Management Board.

QUESTION & ANSWER



Svetlana Kovaleva
Internal Audit Director and Head of the Internal Audit Department

How is interaction between the Internal Audit Department and the Management Board/Board of Directors arranged in the Company?

The Internal Audit is an activity for the provision of independent and objective guarantees and consultations to the Board of Directors and the Company's executive bodies aimed at improving the efficiency of the Company's management.

The powers of the Internal Audit Director – the Head of the Internal Audit Department for interacting with the Company's management bodies – are determined in the Regulation on the Internal Audit of PJSC FGC UES as approved by the Company's Board of Directors¹.

In accordance with the Regulation on the Internal Audit of PJSC FGC UES, determining the principle goals and purposes of the Internal Audit and its functional and administrative subordination were separated to ensure the independence of the Internal Audit.

Functionally, the Internal Audit Department reports to the Company's Board of Directors, while administratively it reports to the Chairman of the Company's Management Board.

The Company's Board of Directors approves the annual work plan for the Department and the budget of the Internal Audit Department, it also appoints a candidate to the position of the Head of the Internal Audit Department and the termination of his/her powers, as well as considers key reports on the results of the audit performed by the Department.

In order to consider the opinion of the Company's management, requests for work plan proposals are sent to the Members of the Company's Management Board when preparing the draft for the work plan for the Internal Audit Department. The draft work plan for the Internal Audit Department is approved by the Chairman of the Company's Management Board and considered by the Audit Committee of the Company's Board of Directors on a preliminary basis and is approved by the Company's Board of Directors.

For example, in 2016 the Department operated in accordance with the work plan for 2016, which was approved by the Board of Directors of PJSC FGC UES

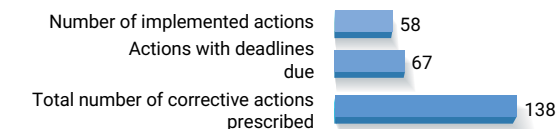
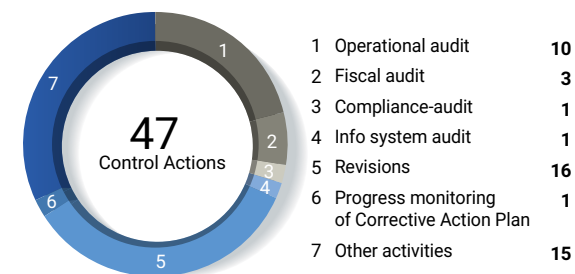
The main documents regulating the function of the Internal Audit:

- Regulation on the Internal Audit Department of PJSC FGC UES²;
- Internal Audit Guidelines of PJSC FGC UES³;
- Ethics Code of Internal Auditors of PJSC FGC UES⁴;
- Regulations on the assessment of the internal control and risk management efficiency of PJSC FGC UES⁵;
- Internal Audit Assessment and Quality Improvement Programme of PJSC FGC UES⁶.

The internal auditor executed 47 audit works in 2016. Following the results of these audit works, 138 corrective actions aimed at the liquidation and future prevention of violations and defects revealed were instructed for execution. 58 corrective actions out of 67 actions, with deadlines for the reported year, were executed.

The execution of corrective actions is controlled by the Audit Committee of the Board of Directors by hearing regular reports from the Company's management on the execution of a corrective action plan to liquidate any defects revealed by the Company's Audit Commission, the Company's internal auditor and the external control bodies.

Results of Control Actions executed by the Internal Audit in 2016



¹ Minutes No. 291 of 19 November 2015 of the Board of Directors.

² Approved by the Chairman of the Company's Management Board on 24 October 2016.

³ Approved by the Audit Committee of the Company's Board of Directors (Minutes No. 43 of 02 December 2015).

⁴ Approved by the Audit Committee of the Company's Board of Directors (Minutes No. 43 of 02 December 2015).

⁵ Approved by the Company's Board of Directors (Minutes No. 309 of 29 February 2016).

⁶ Approved by the Audit Committee of the Company's Board of Directors (Minutes No. 40 of 21 September 2015).

Audit Commission

The Audit Commission is a permanent body that is elected annually by the General Meeting of Shareholders and is responsible for exercising control over the Company's financial and business operations, governing bodies and structural units. In its operations, the Audit Commission is governed by the Company's Articles of Association and by the Regulations on the Audit Commission approved by the Annual General Meeting of Shareholders on 26 June 2015.

The main functions of the Audit Commission are as follows:

- To confirm the reliability of the data in the Company's Annual Report, accounting balance sheet and profit and loss statement;
 - To analyse the Company's financial position, discover ways for its improvement and develop recommendations for the governing bodies;
 - To organise and perform audits (revisions) of the Company's financial and business operations.
- In the reporting year, the Audit Commission held 4 meetings.

Members of the Audit Commission¹ of PJSC FGC UES

	Year of Birth	Educational	Position
Nikolay Pronin Chairman of the Audit Commission	1952	Higher	Head of the Economic Security Division of the Anti-Corruption and Economic Security Department of PJSC Rosseti
Tatiana Zobkova	1976	Higher	Principal Adviser, Deputy Head of Division and Head of Division for Corporate Governance, Pricing Environment and Auditing in the Fuel and Energy Industries of the Russian Ministry of Energy
Igor Karpov	1988	Higher	Deputy Head of the Department for Property Relations and Privatisation of the Federal Agency of State Property Management (Rosimuschestvo)
Igor Schmakov	1974	Higher	Deputy General Director for the Control of PJSC Kubanenergo
Vladimir Khvorov	1947	Higher	Leading Expert of the Department of the State Regulation of Tariffs, Infrastructure Reforms and Energy Efficiency of the Ministry of Economic Development and Trade

For their participation in the audit of financial and business operations, each Audit Commission member is paid a lump-sum remuneration equal to 20 minimum monthly wages of a first category worker, with this minimum monthly wage being set by the sectoral tariff agreement of the electric energy complex of the Russian Federation for the period of the audit. The amount of remuneration to the Chairman of the Company's Audit Commission increased by 50%.

Remuneration Amount Paid to Audit Commission Members in 2016²

Members of the Audit Commission	Remuneration (RUB)
Denis Kant Mandal, Chairman of the Audit Commission	— ³
Nikolay Varlamov	143,880
Marina Lelekova	143,880
Roman Litvinov	143,880
Marat Izmailov	143,880

¹ Formed by the annual General Meeting of Shareholders of PJSC FGC UES on 29 June 2016. Positions of the Audit Commission members are stated at the time of election. None of the Audit Commission members holds any shares in PJSC FGC UES nor do they hold any positions in its governing bodies.

² In 2016, remuneration was paid to the members of the Audit Commission, elected by the Annual General Meeting of Shareholders on 26 June 2015, acting for 2015-2016 corporate year.

External Auditor

The Company annually hires an external auditor to perform an independent and unbiased assessment of the quality of its RAS and IFRS accounting (financial) statements.

External auditors are hired based on tenders providing an objective selection. As per the Resolution by the Board of Directors of PJSC FGC UES "On determining a tender procedure for the selection of auditing organisations to perform a statutory audit of PJSC FGC UES for 2015-2017," a centralised procurement of services on performing a statutory audit of PJSC FGC UES's statements for 2015–2017 was conducted by PJSC Rosseti.

The Annual General Meetings of Shareholders dated 27 June 2014, 26 June 2015, and 29 June 2016 approved LLC RSM RUS as the selected auditor for PJSC FGC UES.

The Annual General Meetings of Shareholders decided on the auditor's remuneration for the audit of the Company's statements for 2016 in the amount of RUB 24,682,983.68, including VAT.

Selected Auditor of the Company's Statements for 2016

Full name: **RSM RUS Limited Liability Company**

Address: 4 Pudovkina str., Moscow, 119285

INN (Taxpayer No.): 7722020834 OGRN (Principal State Registration Number): 1027700257540

Telephone: (495) 363-2848

Fax: (495) 981-4121

E-mail: mail@rsmrus.ru

Data on membership of the auditor in self-regulatory organisations of auditors: Self-Regulatory Organisation of Auditors "Association Sodruzhestvo" (address: 21 Michurinsky Avenue, Bldg. 4, Moscow, Russia, 119192)

In May 2016, the Board's Audit Committee discussed the assessment of the external auditor's performance with regard to the audit of the Company's statements. As per the opinion of the Committee, the audit was in accordance with the key terms and conditions of the contract. Based on the opinion of the Audit Committee, the external audit procedure was generally performed in accordance with the main requirements.

Conflicts of Interest

Preventing Conflicts of Interest of the Board Members

The Board Members shall take reasonable and efficient actions, in particular by taking decisions in consideration of all the information available, in the absence of any conflicts of interest and by treating the Company's shareholders equally, assuming standard levels of risk.

The Company has a comprehensive system for dealing with any conflicts of interest between the Board Members by providing reasonable assurance that any conflict situation will be settled at an early stage and that the Company's interests will not be infringed upon.

As per the Regulations on the Board of Directors, a Board Member must inform the Company's Board and the Corporate Secretary on any potential conflicts of interest and their reason for doing so, including their own interest in the Company's transactions.

In addition, a Board Member must promptly disclose any information on their holding of any securities in the

Company, in its subsidiaries or in controlling companies, as well as on the sale and/or purchase thereof, in addition to holding any positions in other companies or accepting invitations to become a candidate for the Board of Directors (a supervisory board) of any other company or on any change of their permanent (primary) place of work (service, entrepreneurial activity, etc.)

With the goal of detecting any conflicts of interest early on, the Company has developed a questionnaire for its Board Members that contributes to the requirements of the legislation, both in terms of the completeness of information disclosure and in relation to changes to the Federal Law On Joint-Stock Companies. Every three months, Board Members must complete the questionnaire and provide any required information that may reveal any conflicts of interest.

³ The Chairman of the Audit Commission, Denis Kant Mandal, sent a refusal for remuneration for his participation in the work of the Company's Audit Commission.

Dealing with Conflicts Of Interest of the Executives

The Company strives to prevent and minimise any consequences of possible conflicts of interest among its executives. The Company has a comprehensive system of dealing with conflicts of interest among executives that is aimed at preventing any potential conflicts of interest and minimising their negative consequences to the interests of PJSC FGC UES.

As per the Regulations on the Management Board of PJSC FGC UES, Management Board Members must inform the Board of Directors, the Audit Commission, the Auditor and the Secretary of the Management Board about the following:

- His\her affiliation;
- Potential conflicts of interest, including any interest in the Company's transactions;
- The holding of any securities in the Company, as well as the sale and/or purchase thereof.

With the aim of preventing any conflicts of interest, the Members of the Management Board must refrain from actions that will or may potentially lead to a conflict between their interests and the Company's interests, as well as refraining from discussing and voting on matters in which they have a conflict of interest.

In addition, all external appointments of Members to the Management Board are subject to the consent of the Company's Board of Directors.

With the goal of detecting any conflicts of interest early on, the Company has developed a questionnaire for the Members of the Management Board. Every three months, the Members of the Management Board must complete a questionnaire and provide all the required information that may reveal any conflict of interest, in particular for the transactions of interested parties.

Anti-Corruption Policy and Economic Security

The Anti-Corruption Policy is an element of the Company's Internal Control and Risk Management System and provides a set of measures aimed at preventing corruption, reducing reputation risks and the risks of imposing penalties and sanctions on the Company as a consequence of the bribery of officials.

In 2012, the Company initiated its Anti-Corruption Policy, which describes a set of interrelated procedures and specific measures to prevent and fight corruption within the Company and which is aimed at implementing the recommendations of paragraph 260 of the Corporate Governance Code, in which measures have been determined to develop the elements of the Company's corporate culture, as well as its organisational structure, rules and procedures, that ensure the prevention of corruption.

On 24 August 2012, the Board of Directors approved a new version of the Anti-Corruption Policy of PJSC FGC UES with the purpose to improve the Company's Anti-Corruption System and create a unified document providing a set of interrelated principles, procedures and specific measures aimed at preventing and fighting corruption.

In 2017, the Anti-Corruption Policy of PJSC FGC UES was updated and approved in a new version (Minutes No. 357 of the Meeting of the Board of Directors of PJSC FGC UES dated 13 March 2017) in order to exercise a risk-based approach to implementing the Anti-Corruption Policy of PJSC FGC UES and in accordance with the guidelines of Rosimushchestvo on risk management and internal control in preventing and fighting corruption in joint-stock companies with the state participation of the Russian Federation (Order No.

80 by Rosimushchestvo of 2 March 2016).

The implementation of the Company's Anti-Corruption Policy is based on the following principles:

- Compliance of the Anti-Corruption Policy with the applicable laws and generally accepted standards;
- Observance of the rights and legitimate interests of the Company's employees, partners, contractors and other parties, as well as keeping commercial secrets in implementing anti-corruption measures;
- "Tone at the Top," set by senior executives to foster intolerance towards corruption and to develop the internal system to prevent and fight corruption;
- Employee involvement: the Company's employees shall be informed about the provisions of anti-corruption legislation and shall participate in creating and implementing anti-corruption standards and procedures;
- Proportionality of the anti-corruption procedures to the potential damage and corruption risks;
- Effectiveness of anti-corruption procedures: anti-corruption measures that are easy to implement and bring significant results;
- Liability for corruption and the inevitability of punishment for all employees, irrespective of their position, length of service or other conditions, in the case of corruption while performing their functions;
- Transparency in business: informing the Company's partners, contractors and the public on the anti-corruption standards of business that are implemented;

- Continuous control over and regular monitoring of the effectiveness of anti-corruption standards and procedures, as well as control over their observance.

- To set requirements and restrictions for interacting with the state authorities whose competence include combating corruption;

The main tasks of the Company's Anti-Corruption Policy are:

- To determine the key directions to ensure compliance with the requirements of Article 13.3. of the Anti-Corruption Law;
- To establish an effective mechanism for implementing measures to prevent and fight corruption (including the Anti-Corruption Policy);

- To prevent corruption and other offences and to provide for the liability of said offences;
- To show the Company's strong intolerance towards corruption in all its forms and manifestations to its shareholders, partners, contractors and members of executive and control bodies;
- To minimise the risk of the Company's involvement in corruption.

Key Results of the Company's Anti-Corruption Activity in 2016:

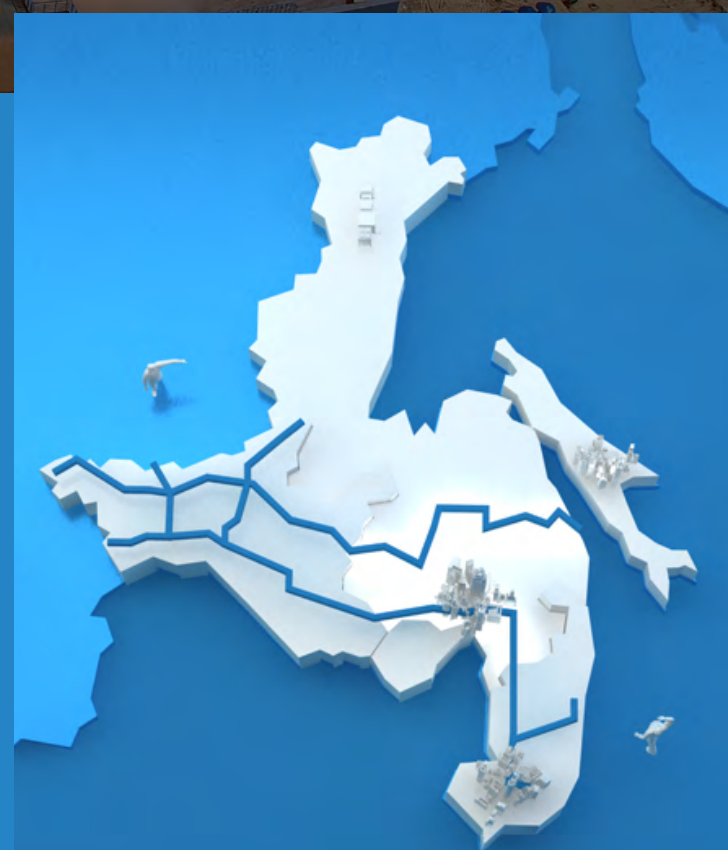
Direction	Key Achievements
Improving the Company's Regulatory Standards	<p>The following internal regulations were approved:</p> <ul style="list-style-type: none"> – methodology documents on the risk management of corruption; – the action plan ("road map") for implementing the risk management and internal control procedures of preventing and fighting corruption; <p>a new version of the Anti-Corruption Policy of PJSC FGC UES was developed and approved (Minutes No. 357 of the meeting of the Board of Directors of PJSC FGC UES dated 13 March 2017);</p> <p>a list and map of the Company's corruption risks were developed and approved (Minutes No. 357 of the meeting of the Board of Directors of PJSC FGC UES dated 13 March 2017).</p>
Identification and Settlement of Conflicts Of Interest	<p>the Company ordered to declare any conflicts of interest. Over 5 thousand declarations were collected and checked, and the information declared was analysed. The Company's corresponding subdivisions considered any potential conflict situations;</p> <p>the declared information was analysed. Commissions on Corporate Ethics and Conflicts of Interest at the Company's affiliates examined the potential conflict situations and submitted them to the Company's Central Commission on Corporate Ethics and Conflicts of Interest. Decisions were taken based on the examination of the results (Minutes No 6 of the meeting of the Central Commission dated 14 November 2016).</p>
Anti-Corruption Control in Relations with Partners and Contracting Parties	<p>monitoring transactions for any conflicts of interest, the timely receipt of information on changes to the shareholders of contracting parties, as well as the inclusion of an anti-corruption clause and other mandatory clauses, into contracts;</p> <p>review of the documents and control of the funds for charitable assistance.</p>
Identification of Potential Corruption in the Abuse Of Power	<p>anti-corruption review of 255 executive documents (about 24 per cent of the total number of the executive documents issued by the executives for the reporting period);</p> <p>collection and analysis of information on the income, expenses, property and property-related obligations of employees whose positions are subject to the above procedures.</p>
Participation in Working Groups and Collective Initiatives on Preventing and Fighting Corruption	<p>submission of a monthly report containing information on contracts signed, including the entire chain of the shareholders of contracting parties, to the Russian Ministry of Energy, the Federal Financial Monitoring Service (Rosfinmonitoring) and the Federal Tax Service of Russia.</p>
Evaluation of the Anti-Corruption Policy's Effectiveness	<p>anonymous questionnaire survey was held among employees.</p>

15 YEARS TOGETHER with Russia



Backbone electric grids of the East (MES East)

FGC BRANCH



SERVICE AREA

5 constituent territories of the Russian Federation in the Far East Federal district, with a population over 5 million people.

PERSONNEL

About 2 thousand people

ASSETS¹

HVTL 15.8 thousand km
91 substations, 220-500 kV
3 TSS, 6-10 kV
Capacity – about 15.2 thousand MVA

OPERATIONS

Electricity transmission.
The branch provides electric connection of UES of East with the power system of Siberia, and exports electricity to China.

¹ according to annual performance reports



Key infrastructure projects

- 2003–2012** **Control of electric power capacity shortages in the Primorsk Territory**
Elimination of rolling outages;
Creation of conditions for developing economic potential of the southern region;
Development of Vladivostok as a centre of international cooperation in the Asia-Pacific Region.
- 2004–2005** **Power supply of units 3 and 4 of the Bureysk HPP in UES of East**
Reduction of dependence on fuel supply of power systems in 3 Far East regions;
Renewal of TPP equipment resources;
Creation of conditions for developing the Far East region.
- 2014** **Power supply of Vostochny Cosmodrome**
Creation of conditions for power supply of Vostochny Cosmodrome and the future science city – the city of Tsiolkovsky.
- 2009–2015** **Electricity supply to the infrastructure of the Eastern Siberia – Pacific Ocean pipeline system**
Construction of facilities to supply electricity to the SS of the Eastern Siberia – Pacific Ocean pipeline system (up to 50 million tonnes of oil for the Asia–Pacific market);
Connection of Kozmino offshore oil loading port, the end point of the Eastern Siberia – Pacific Ocean pipeline system.

PHOTOS:

- 1 Vostochny Cosmodrome
- 2 Vladivostok
- 3 Bureysk HPP
- 4 Kozmino offshore oil loading port

Monitoring Anti-Corruption Awareness

In 2016, the Company held an anonymous questionnaire survey among its employees to assess the effectiveness of its anti-corruption activities. The results showed a 3% increase in the number of employees who assessed the Anti-Corruption Policy as effective and a 2% increase in the number of employees

who are ready to report on corruption as compared to the previous year (a 7% increase in both figures in the Executive office). There was a 9% increase in the awareness of where to report in case an employee becomes aware of possible acts of corruption.



For more details on protecting against terrorism and crime on economic and information security and on managing integrated security, see the [Appendix 1](#) hereto

Share Capital, Securities Trading

As of 31 December 2016, the share capital of PJSC FGC UES stood at RUB 637,332,661,531.50, divided into 1,274,665,323,063 ordinary registered uncertified shares with a nominal value of RUB 0.50 each. No preferred shares have been placed as of the date above.

In accordance with the Company's Articles of Association, the number of authorised shares amounts

to 72,140,500,768 ordinary registered shares with a nominal value of RUB 0.50 each and a total nominal value of RUB 36,070,250,384. Authorised ordinary shares offer the same rights as outstanding ordinary shares.

In 2016, there were no issues of additional shares of PJSC FGC UES.



Information on the Company's share capital history can be found on our corporate website at www.fsk-ees.ru/eng/ in the [Investors / Share Information / Share Capital History](#) section.

Share Capital Structure

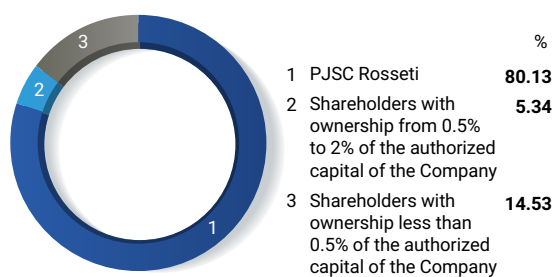
The total number of the Company's shareholders is over 400 thousand. As of 31 December 2016, the Shareholder Register included:

- 406,994 individuals;
- 1,434 legal entities (including 43 nominees and 3 trustees).

In 2016, there were no significant changes to the Company's share capital structure.

PJSC Rosseti is the largest shareholder of PJSC FGC UES (holding 80.13% of the share capital). The State (the Russian Federation), represented by Federal Property Management Agency (Rosimuschestvo), holds 0.59% of the Company's share capital. The government has no special right to participate in the Company's management (golden share).

The Company's Share Capital Structure as of 31 December 2016



For further details on the Company's share issues, please see [Appendix 1](#) hereto

Shareholders' Agreement

In June 2013, PJSC Rosseti and Rosimushchestvo signed a shareholders' agreement regarding managing and voting in PJSC FGC UES. The parties have signed the agreement with respect to all, present and future, voting shares in PJSC FGC UES.

As of 31 December 2016, 1.077% of the Company's shares were in a cross holding owned by LLC FGC – Asset Management.



For more details on the Company's minority shareholders, please see the [Management Report/ Information Disclosure and Communication with Investors and Shareholders/ Communication with Investors and Shareholders](#) section.

Free-float

As at the end of 2016, the percentage of the free float shares of PJSC FGC UES comprised 18.2%¹.

The Company performs an annual analysis of the shareholder register to identify the key groups of the holders of ordinary shares and depository receipts.

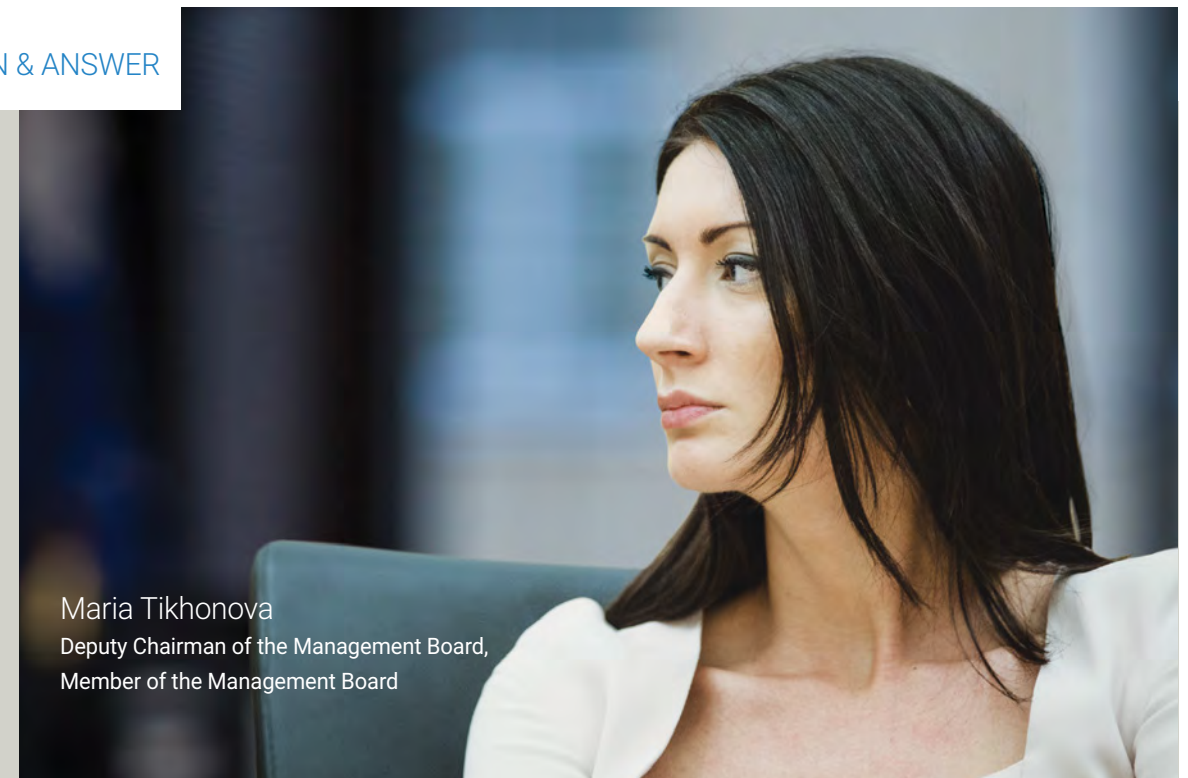
¹ Free-float is calculated as the percentage of the Company's shares which are in free circulation as at the end of 2016, excluding shares owned by PJSC Rosseti, the State (Government), municipalities and 'quasi-treasury' shares.

The Company's Securities on the Stock Market

244% Capitalisation increase in 2016

	2016 OBJECTIVE	2016 ACHIEVEMENT	2017 OBJECTIVE
Total Shareholder Return (TSR)	Higher than the change value of the MOEX RCI ² (Regulated Companies Index) by a positive value set by the Board of Directors	267% (MOEX RCI index value: 44%)	Higher than the change value of the MOEX RCI (Regulated Companies Index) by a positive value set by the Board of Directors

QUESTION & ANSWER



Maria Tikhonova
Deputy Chairman of the Management Board,
Member of the Management Board

What is the reason of such a rapid increase in the Company's shares value?

Until March 2016, the Company's stock quotes were sideways, awaiting news on further growth or decline. At that stage, many investors removed the Company's shares from their investment portfolio. These factors, as well as the purchase of shares by Long-Term investors who are focused on undervalued assets, led to a powerful move of the quotations in the second half of 2016.

In 2013-2014, the Company's shares and depository receipts were very undervalued by the market and were bought by investors who are focused on Value Strategy: a strategy for buying undervalued assets and waiting

for the return of their fair valuation by the market.

Other positive signals for growth included the Company's **good financial results in 2015 (which attracted investors focused on investing in assets with good growth prospects)**, as well as an initiative by the Russian government to increase the minimal dividends of state companies from 25% to 50% of the net profit for 2015. This positive market trend was increased in April 2016 by the decree No. 705-r "On the amount of dividends paid by companies with state participation in 2015."

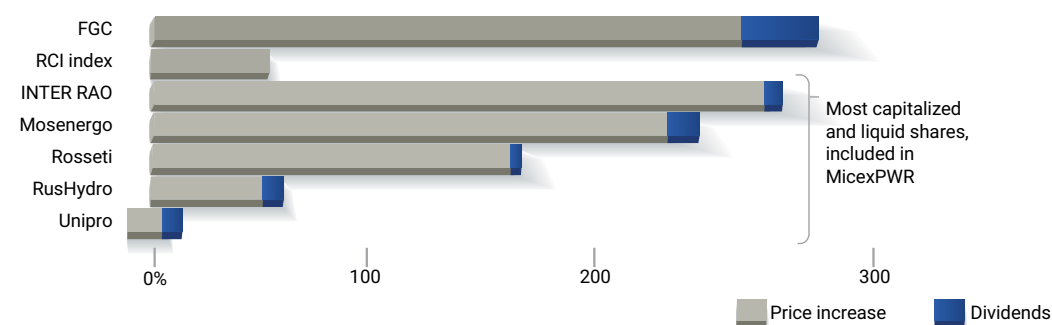
What is the Company's investment attractiveness in the management's opinion?

Federal Grid Company is a low-risk, government-regulated business focused on increasing shareholder welfare through dividend payments and increasing the value of its assets. The Company is focused on

fulfilment of the public task of the UNEG development based on the technical and economic optimisation of backbone electrical grids.

² MOEX RCI is the index of the regulated companies of the Moscow exchange.

TSR of Russian Electric Grid Companies As Per the Results of 2016, %



As per TSR dynamics in 2016, the Company's shares became the leaders among the most liquid share, both in the electric energy sector and in the Russian market in total.

Shares of Federal Grid Company are traded on the Level 1 quotation list of the MOEX and are included in the list of securities traded on the St. Petersburg Stock Exchange.

Outside of Russia, the Company's shares are traded as global depository receipts (GDR) on the London Stock Exchange. The GDR programme's depository bank is

the Bank of New York Mellon (BNY Mellon). As of 31 December 2016, the GDR programme represented 0.164% of the Company's total share capital.

The Company's shares are included in the index calculation base of key Russian and foreign indices.



For more information on the Company's trading shares, please see the website at www.fsk-ees.ru/eng/ in the Investors / Share information / Interactive Stock Chart section.

General Information on the Shares of PJSC FGC UES

Category of Shares	Ordinary Registered Uncertified Shares
Nominal value	RUB 0.50
MICEX Ticker	FEES
SPBEX Ticker	FEES
LSE Ticker	FEES
ISIN	RU000A0JPNN9
Bloomberg Code	FEES RX

Weight In Indices, %, as of 31 December 2016

MICEX Index	0.52
Broad Market Index (MICEX BMI)	0.51
RTSI	0.52
MICEX PWR	14.86
The RTX Energy (Vienna Stock Exchange)	16.85



For more information on DR trading, please see the website at www.fsk-ees.ru/eng/ in the Investors / Share information / GDR Program section.



For latest information on the GDR program, please see the official London Stock Exchange website at www.londonstockexchange.com under the Company's ticker symbol – FEES.

Key Parameters of Share and DR Trading

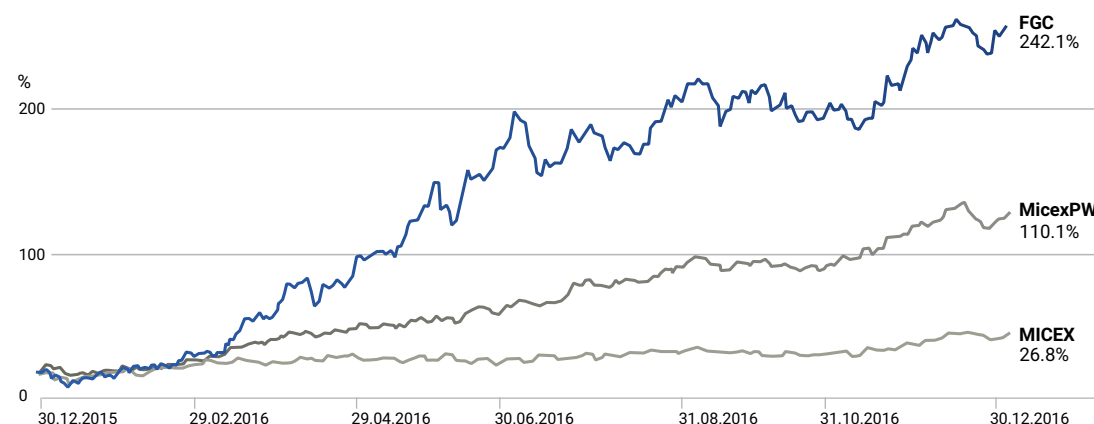
		2014	2015	2016
The Company's Shares on MOEX				
Trading Volume	RUB bn	65.3	28.9	90.4
Low	RUB	0.02900	0.0440	0.0539
High	RUB	0.0939	0.0804	0.2097
Year End	RUB	0.04569	0.0594	0.2032

		2014	2015	2016
The Company's DR at the London Stock Exchange				
Trading Volume	USD bn	1.4	0.7	7.0
Low	USD	0.55	0.36	0.30
High	USD	1.50	0.80	1.65
Year End	USD	0.79	0.36	1.64

In 2016, the performance of the MICEX PWR Sector Index was significantly higher than the performance of the MICEX Index. The main factor contributing to this stable increase in MICEX PWR after the decrease of 2011-2015 was the rise in the financial standing of power companies due to the end of the tariff restrictions period (for electric grid companies) and a decrease in investment expenses (for power generation companies), which contributed to the improved investment attractiveness of power companies.

In the reporting period, the Company's shares were significantly higher than both the MICEX and MICEX PWR indices. Throughout the year, the Company's share price increased by 242% (from RUB 0,059 at the end of 2015 to RUB 0,203 at the end of 2016) compared to the increase of 27% and 110% demonstrated by the MICEX Index and MICEX PWR respectively. At the end of 2016, the Company's market capitalisation was RUB 257.6 billion.

Dynamics of the Company's Ordinary Share Value Compared to MICEX Index and PWR Index in 2016

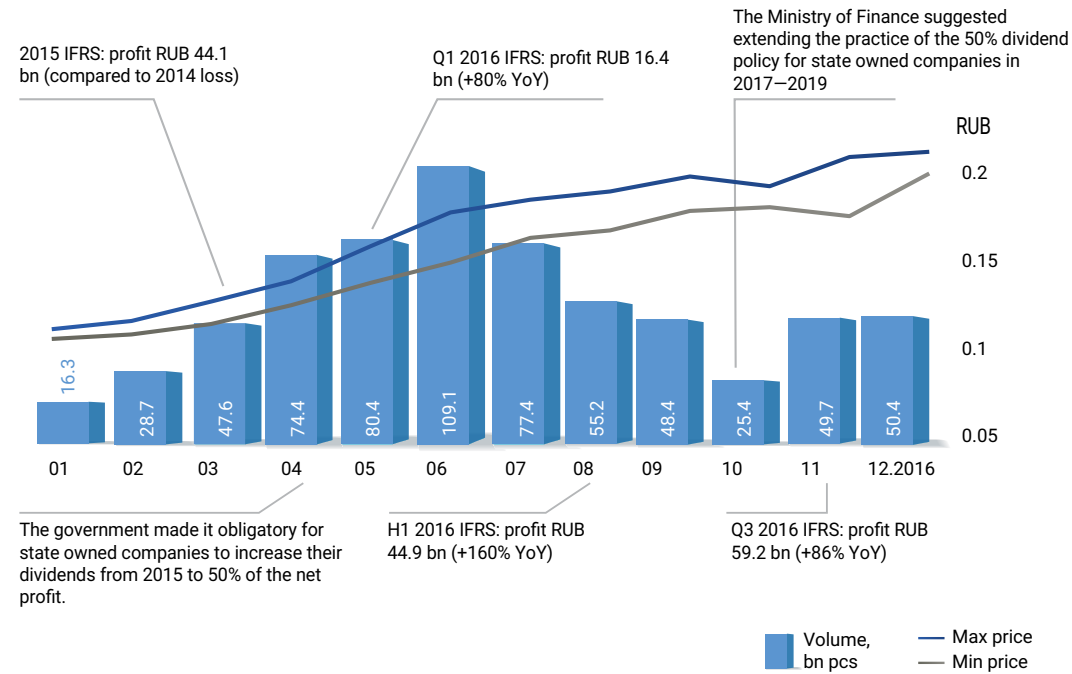


The growth of the Company's share value was due to the following factors:

- The Russian government made it obligatory for state owned companies to increase its dividends from 2015 to 50% of the net profit and considered the possibility to use such measures for 2017-2019;
- The Company showed good financial results, with effective optimization of the Investment Programme and operating costs;

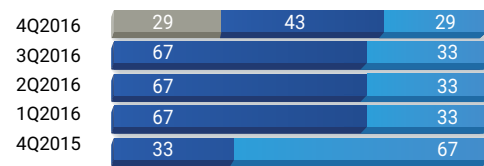
- Improvement of the attitude of international investors towards Russian assets in general, towards their strong dividend histories in particular;
- Upturn of the Russian economy, stabilisation of the ruble, the decline in interest rates by the Central Bank of Russia and a decline in inflation.

Trading Volume, the Minimal and Maximal Price of the Company's Shares per Month, and Main Event Drivers of the Growth in Share Value for 2016



The significant increase in the Company's share value in 2016 was accompanied by the improvement of recommendations by energy market analysts. At the end of 2015, none of the energy market analysts recommended buying the Company's shares, whereas in December 2016, 29% of analysts recommended buying the Company's shares.

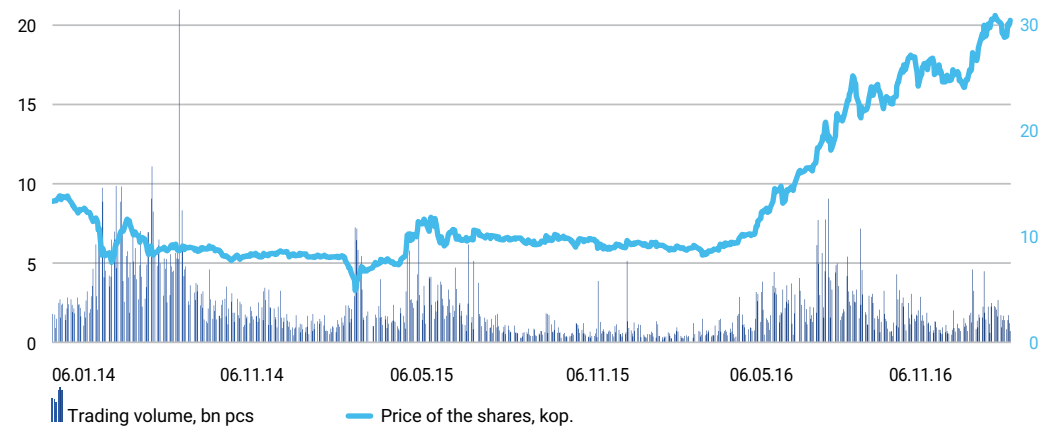
Recommendations of Analysts on the Company's Shares, %



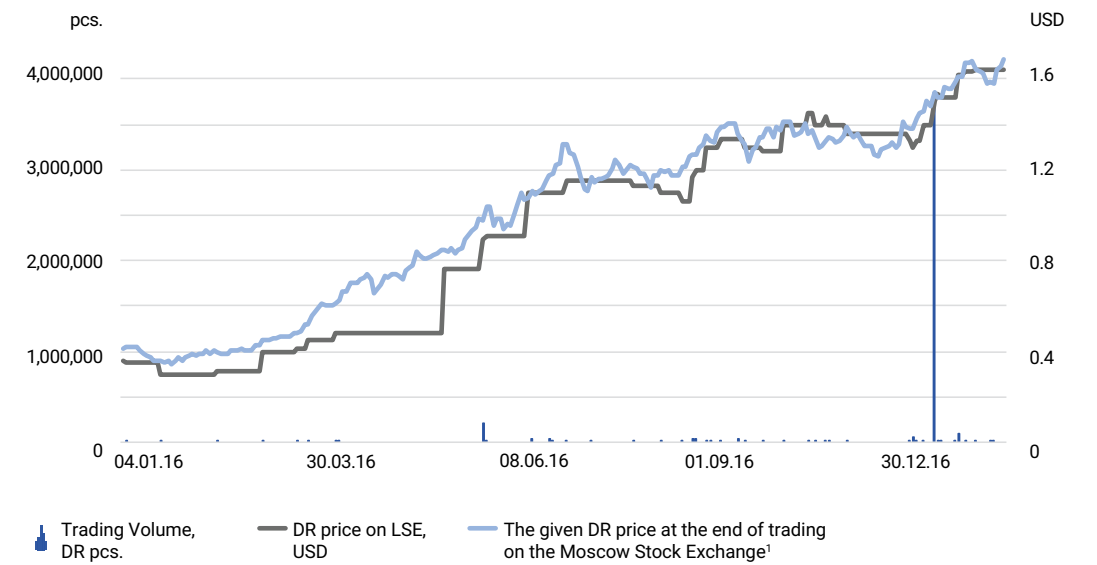
Buy Hold Sell

Source: the Company's own data.

Company's Shares Price and Volume Dynamics on the MOEX



GDR Price and Volume Dynamics on the LSE



Dividend Policy and Profit Distribution

When shaping our Dividend Policy, we are guided not only by the strict observance of legal requirements, but also by the necessity to provide an optimal balance between the shareholders' interests, the Company's business needs and the need to enhance the Company's investment attractiveness and capitalisation.

The principles of the Dividend Policy are set in the Regulations on Dividend Policy of PJSC FGC UES as approved by the Board of Directors.

The full text of the Regulations on Dividend Policy is available on the corporate website at www.fsk-ees.ru/eng/ in the Investors section.

In April 2016, the Russian government issued a decree² according to which the amount of dividends shall not be less than the larger of 2 amounts – either 50% of the net profit of the company (excluding income and expenses from

the revaluation of traded shares of its subsidiaries and related income tax) according to accounting (financial) statements, or 50% of the net profit according to the consolidated financial statements of the company.

¹ The given DR price is an evaluation of the 1GDR price using the share price at the end of trading on the Moscow Stock Exchange (arbitrage of the receipt price). Calculation as per the formula: Price per 1 share on the MOEX / The CB of Russia's exchange rate in \$ to RUB * 500 (the number of shares in 1 GDR).

² Decree No. 705-r of the Russian Government dated 18 April 2016.

The General Meeting of Shareholders decides on dividend payments based on recommendations made by the Board of Directors. The recommended dividend amount is determined based on the Company's financial results in accordance with the Federal Law No. 208-FZ of December 26, 1995, "On Joint Stock Companies", and the decree No. 774-r of the Russian Government dated 29 May 2006, and other legal acts of the Russian Federation.

Despite the challenging market and economic situation in 2016, the Company paid dividends for 2015 in the amount of 95% of the net profit as per RAS, which was a record event in the Company's dividend history.

Dividend History of PJSC FGC UES

	2011 (for 2010)	2012–2014 (for 2011– 2013)	2014 (for the 1st Quarter of 2014)	2015 (for 2014)	2016 (for 2015)
Total amount of Dividends Declared, RUB mln	2,577.7		436.8	847.4	16,976.6
Dividend per Share, RUB	0.0020524		0.0003427	0.0006647883	0.0133185
Dividends (% of Net Profit as per RAS)	4.44%		36%	25% ²	95%
Date of Declaration	29 June 2011	No dividends were declared for 2011, 2012 and 2013	27.06.2014	26.06.2015	29.06.2016
Date of Actual Payment	29 August 2011		25.07.2014 ³ 20.08.2014 ⁴	30.07.2015 ³ 20.08.2015 ⁴	25.07.2016 ³ 15.08.2016 ⁴
Balance of Unpaid Dividends ⁵ (as of 31 December 2016), RUB mln		Dividend payment obligation cancelled due to end of the dividend request period	1.6	3.4	67.4

RUB 100,037,019.63
was transferred
as dividends
to the Federal
Budget.

Profit Distribution of PJSC FGC UES, RUB thousand

	2012 (for 2011)	2013 (for 2012)	2014 (for 2013)	2015 (for 2014)	2016 (for 2015)
Retained profit (or loss) for the reporting period, incl.:	- 2,468,359	- 24,501,917	- 25,897,521	4,699,940	17,870,137
Reserve Fund	–	–	–	256,837	893,507
Development	–	–	–	–	–
Dividend payment	–	–	–	847,383	16,976,630
Cover for losses of previous periods	–	–	–	3,595,720	–

Information on profit distribution and dividends paid is presented in accordance with the resolutions of the Annual General Meetings of Shareholders (GMS):

GMS 2011 (for the year 2010) - Minutes No. 11 dated 4 July 2011.

GMS 2012 (for the year 2011) - Minutes No. 12 dated 2 July 2012.

GMS 2013 (for the year 2012) - Minutes No. 13 dated 2 July 2013.

GMS 2014 (for the year 2013) - Minutes No. 15 dated 30 June 2014.

GMS 2015 (for the year 2014) - Minutes No. 16 dated 30 June 2015.

GMS 2016 (for the year 2015) - Minutes No. 17 dated 4 July 2016.

² Including dividends for the 1st quarter of 2014.

³ To nominees and trustees.

⁴ To other persons registered in the Company's Shareholder Register.

⁵ Dividends are paid in full to all persons registered in the Company's Shareholder Register, except for those who had not promptly informed the register keeper of changes in their data, and whose dividend payment details are incorrect.

Information Disclosure and Communication with Investors and Shareholders

Information Disclosure System

QUESTION & ANSWER



Georgy Reshetnikov
Interim Head of External
Communications and Government
Relations Department

It's important for our stakeholders to have reliable information on the Company's performance. What does the Company do to provide this?

The more official information, the less rumours people have. This rule works in most cases and we try to follow it. Traditionally, Federal Grid Company gives the stakeholders a lot of information about its activities, not limited to official disclosure in accordance with the legislation and rules of the Stock Exchange. Significant attention is surely paid to our work with the media. FGC UES not only processes 100% of incoming information requests, but also provides a constant flow of outgoing messages on its performance in order to give journalists an opportunity for direct communication with the Company's executives. During the past three years, the Company has been one of the top three industry leaders by number of hits in the media.

However, it is impossible to have one disclosure channel for work across all audience groups. Various departments are responsible for providing information to the consumers, the government, suppliers, contractors, public organisations and

others. It's important to note that all of these audience groups receive consistent and uniform information. This is achieved through the implementation of the Company's Information Policy that was developed in 2008 and updated in 2015 in accordance with the recommendations of the Russian Corporate Governance Code. In addition, the Regulations on implementing the Information Policy were developed in 2016 and approved by the Board of Directors in the beginning of 2017, which allowed to us formalise and arrange coordination with JSC Rosseti and the Company's subsidiaries.

Finally, the last block is aimed at identifying any reputation risks and inaccurate information in the public field. For this purpose, 24 hour monitoring of the information space is organised and the data thereof is promptly sent to the Company's management.

The Information Policy of Federal Grid Company is aimed at ensuring the Company's effective interaction with shareholders, investors and other stakeholders

and achieving the full realisation of their rights in order to receive the relevant and reliable information required for investment and management decisions.

The Company's Disclosure Principles

- Regularity
- Consistency
- Timeliness
- Availability, Reliability, Completeness and Comparability of Disclosures

The Company avoids a formal approach to disclosure and goes beyond strict compliance with the applicable legislative requirements. The Company strives to promptly inform its stakeholders on all the significant facts and events related to its activities through various media outlets and channels, primarily electronic media.

When providing information, the Company maintains a reasonable balance between its own interests and the interests of stakeholders, in particular with regard to restrictions on the access to insider information and commercial secrets.

The Regulations were developed based on recommendations of the Russian Corporate Governance Code. These Regulations determine the information

policy to ensure the effective disclosure of statutory and additional information contributing to the increase of information openness and transparency of relations between the Company and its shareholders, creditors, potential investors, professional participants of securities market, state bodies, the media and other stakeholders.

The Regulations provide a list of additional information that the Company undertakes to disclose beyond what is statutorily required. This includes information on the corporate governance system, the work of the governing bodies, the Company's capital structure, financial activities and financial position.

The Chairman of the Company's Management Board is responsible for the completeness and accuracy of the information on the Company and its performance. He ensures the procedures of preparation, approval, control of content and deadlines for information disclosure, an appropriate document storage system and the functionality and safety of information resources. The Board of Directors is responsible for monitoring compliance with the Company's Information Policy.

The Corporate and Strategic Management Department analysed the information disclosed by the Company in 2016 in accordance with the Regulations on the Company's Information Policy and prepared the report on the Company's observance of the Information Policy.

The report on the Company's observance of Information Policy is submitted for review to the Company's Board of Directors.

Disclosure Channels

Federal Grid Company uses various disclosure channels, primarily electronic, which ensure the free, easy and indiscriminate access of information to all of its stakeholders.

We regularly update our corporate website, www.fsk-ees.ru/eng/, whose sections contain both mandatory and voluntary disclosures on all areas of the Company's business, information for shareholders and investors, customers, suppliers and employees, the latest news and press releases, financial statements, annual reports and reports on sustainable development. We ensure that the structure of our website and its interactive tools provide quick and easy access of to all the necessary information.

In addition to publishing information on its website, the Company discloses information on the websites of the [Interfax agency](#), the [Moscow Exchange](#), the [London Stock Exchange](#) and in the printed version of Rossiyskaya Gazeta, in addition to posting price-sensitive information on the RNS international information portal.

The Company pays special attention to important tools for communication with its shareholders, investors and other stakeholders such as the annual and social reports. We strive to constantly improve the quality of our corporate reports, combining clear structure and logic with the brevity and depth of the statements.



The full text of the Regulations on the Information Policy of PJSC FGC UES is available at the website at www.fsk-ees.ru/eng/ in the [Investors / Corporate governance / Corporate documents](#) section.



For information on the participation of PJSC FGC UES in congresses and exhibitions, please see [Appendix 1](#) hereto



For details on the Company's compliance with the Information Policy, please see paragraphs 6.2 and 6.3 of the Report on the Company's compliance with principles and recommendations of the Corporate Governance Code in [Appendix 3](#) hereto.

Public Relations

Federal Grid Company maintains close and constant interaction with its stakeholders, including the government authorities, public organisations and the mass media. To implement the Company's policy in this area, a Department of External Communications and Government Relations has been created and operates actively in different spheres, including

communication with mass media and stakeholders, the organisation of various sector events and projects aimed at promoting the activities of the backbone grid complex. The Company's PR projects are organised within the framework of the Unified Information Policy of PJSC Rosseti.

Interactions with Investors and Shareholders

The key objectives of the Company's IR Team are to raise awareness about the Company in the investment community and to provide effective interaction therewith in order to enhance investor confidence and increase the demand for the Company's shares.

We consider an active dialogue with the investment community to be an important tool for obtaining

feedback from this audience in order to understand how certain decisions may impact the investors' assessment of the Company.

The Corporate and Strategic Management Department is responsible for close interaction with the investment community.

Information on Minority Shareholders

The Company's key minority shareholders main comprise institutional investors, with retail investors accounting for 3%.

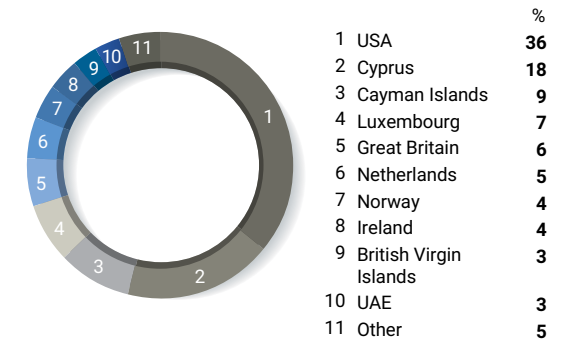
In 2016, the largest foreign shareholders of the Company are the investment funds and mandates under management of Prosperity Capital Management Ltd – 2.1% collectively.

List of Foreign Shareholders Collectively Holding about 5% of the Company's Outstanding Shares

Name	Country	Type of Investor
Prosperity Capital Management	Cayman islands	Funds and Managing companies
State Street Bank and Trust Company	USA	Banks and Trusts
Kopernik Global All-Cap Fund	USA	Funds and Managing companies
Polunin Developing Countries Fund	USA	Funds and Managing companies
Norges Bank	Norway	Sovereign Wealth Funds
Vanguard International Equity Index Funds	USA	Funds and Managing companies

The share of foreign institutional investors, including major international funds whose assets under management exceed USD 1 billion, such as the Kopernik Global All-Cap Fund, the Vanguard International Equity Index Fund, BlackRock funds and the investment funds of some countries, in particular that of Norway and the United Arab Emirates, comprises 67% of the free float.

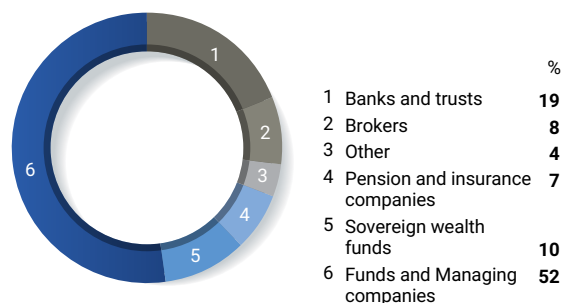
Foreign Investor Breakdown by Region



- The XIX Annual Report Competition organised by the Moscow Exchange:
- Best Information Disclosure on Corporate Governance in the Annual Report;
 - Best Information Disclosure on the Corporate Website.

RECOGNITION
Expert Community Evaluation of 2015 the Annual Report of PJSC FGC UES

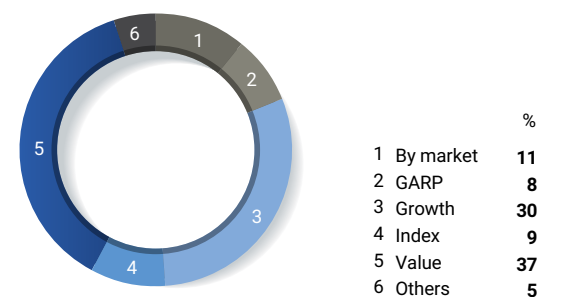
Foreign Investor Breakdown by Investment Type



The majority of the Company's shares held by foreign investors belongs to US companies – 36%.

Over 50% of the Company's shares held by non-residents belong to funds and managing companies.

Foreign Investor Breakdown by Investment Style



Most investors consider the Company's shares as an undervalued asset (Value) or an asset with good prospects for value growth (Growth); an intermediate position between these two approaches is a style of investing called GARP (Growth At Reasonable Price). The "By Market" group consists of short-term investors who focus on the current situation of the market – including brokers and hedge funds. The objectives for the Index Investor Group are various index solutions.

IR Events

The Company's policy to increase investment attractiveness for stock market participants includes a series of events. In 2016, such events included the following:

- the Company's IFRS financial results for 2015 were presented by the Head of the Financial Unit via conference call;
- the Company's executives held one-on-one meetings with representatives of Russian and foreign investment companies in the framework of the VTB Capital Investment Forum "RUSSIA CALLING";
- regular communication by the Corporate and Strategic Management Department with the analysts of investment banks in order to give them information to update of the Company's investment models;

- letters and emails with answers to investors' and shareholders' questions;
- regular monitoring of the Company's share capital, which allows the organisation of the main groups and types of investors in order to develop an optimal mechanism of interaction with them;
- actions to engage minority shareholders in voting on items for the preparation for the Annual General Meeting of Shareholders;
- an annual business lunch of the Chairman of the Management Board with the representatives and analysts of the investment community.

For details on the Company's IR events, please see the website at www.fsk-ees.ru/eng/ in the *Investors / IR releases* section.

A list of investment analysts monitoring the Company's performance is available on the website at www.fsk-ees.ru/eng/ in the *Investors / Analysts Coverage* section.

In December, the Chairman of the Company's Management Board, Andrey Murov, and the heads of the Company's key units, held a business lunch with the representatives of the investment community and business analysts to discuss the Company's performance in 2016, as well as its mid-term plans. This was the fourth meeting held in such format. As a result, it was agreed to continue an active dialogue with the purpose of informing investors on the Company's performance and in order to obtain feedback from industry experts.



"Meetings in such format have become a tradition that enable the Company's management to get direct feedback from market experts, thus improving the quality and efficiency of management decisions."

Andrey Murov, the Chairman of the Company's Management Board

2017 Investor Calendar

The Investor Calendar is constantly updated and available on the Company website at www.fsk-ees.ru/eng/ in the *Investors / Investor Calendar* section.

Date	Event/Location
February 28th	2016 Annual Results (RAS)
March 23rd	FY 2016 Financial Results (IFRS)
On or prior to April 28th	Annual Financial Results as per requirements of Financial Conduct Authority (United Kingdom)
On or prior to April 28th	Q1 2016 Financial Results (RAS)
On or prior to May 30th	Q1 2017 Financial Results (IFRS)
On or prior to June 30th	Annual General Meeting of Shareholders
On or prior to July 28th	H1 2017 Financial Results (RAS)
On or prior to August 29th	H1 2017 Financial Results (IFRS)
October	VTB Capital Investment Forum RUSSIA CALLING (Moscow)
On or prior to October 30th	Q3 2017 Financial Results (RAS)
On or prior to November 30th	Q3 2017 Financial Results (IFRS)
December	Annual Meeting of the Company's executives with the investment community (Moscow)

IR Team Contacts

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www.rsmrus.ru

20.02.2017 № PCM-1115



Independent Auditor's Report on the Accounting Statements for 2016

to the Shareholders of FGC UES, PJSC

Audited entity:

Federal Grid Company of Unified Energy System, PUBLIC JOINT-STOCK COMPANY (short name – FGC UES, PJSC).

Place of business: 5a Akademika Chelomeya St., Moscow, Russia, 117630

Principal State Registration Number – 1024701893336.

Auditor:

Limited Liability Company RSM RUS.

Place of business: 4 Pudovkina St., Moscow, Russia, 119285

Telephone: (495) 363-28-48; fax: (495) 981-41-21;

Principal State Registration Number – 1027700257540.

Limited Liability Company RSM RUS is a member of the Self-Regulatory Organization of Auditors "Association Sodruzhestvo" (membership certificate No. 6938, Principal Number of Registration Entry (PREN) – 11306030308), place of business: 21 Michurinsky Avenue, Bldg. 4, Moscow, Russia, 119192

We have conducted an audit of the enclosed accounting statements of FGC UES, PJSC, consisting of the Balance Sheet as of December 31, 2016, the Profit and Loss Statement, the Statement of Changes in Equity, and the Cash Flow Statement for 2016, written appendices to the annual accounting statements.

Responsibility of the audited entity for the accounting statements

Management of FGC UES, PJSC is responsible for the preparation and fair presentation of these accounting statements in accordance with the Russian Accounting Standards and for designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of accounting statements which are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the reliability of these accounting statements based on our audit. We conducted the audit in accordance with the federal auditing standards. These standards require that we comply with applicable ethical norms and plan and perform an audit in such a manner as to obtain reasonable assurance whether the accounting statements are free of any material misrepresentation.

Our audit involved performance of auditing procedures aimed at obtaining audit evidence about the amounts and disclosures in the accounting statements. The selected auditing procedures are a matter of our judgment, which is founded on the assessment of the risk of material misrepresentation due to malpractice or error. In the course of assessment of this risk, we reviewed the internal control system ensuring the preparation and reliability of the accounting statements in order to select appropriate auditing procedures but not to state our opinion regarding the efficiency of the internal control system.

The audit also included evaluation of the appropriateness of the existing accounting policies and the reasonableness of accounting estimates made by the management of the audited entity, as well as evaluation of the overall presentation of the accounting statements.

RSM RUS LLC is a member of the RSM network and operates as RSM. RSM is a trademark used by members of the RSM network. The RSM network consists of independent accounting and consulting companies, performing independent activities. The RSM network itself does not constitute a separate legal entity in any jurisdiction.

We believe that the audit evidence obtained in the course of the audit provides sufficient basis to express our opinion on the reliability of the accounting statements.

Opinion

In our opinion, the accounting statements fairly present, in all material respects, the financial standing of FGC UES, PJSC as of December 31, 2016, its financial performance and its cash flows for the year 2016 in accordance with the Russian Accounting Standards.

Chairman of the Management Board

Auditor qualification certificate No. 05-000015 issued pursuant to resolution No. 24 of the Self-Regulatory Organization of Auditors Non-Commercial Partnership "Russian Collegium of Auditors" (dated November 15, 2011) for an indefinite period of time.

PREN in the register of auditors and audit organizations – 21706004215.

N.A. Dantser

Audit Leader

Auditor qualification certificate No. 05-000030 is issued pursuant to the resolution (minutes No. 25) of the Self-Regulatory Organization of Auditors Non-Commercial Partnership "Russian Collegium of Auditors" (dated November 30, 2011) for an indefinite period of time.

PREN in the register of auditors and audit organizations – 21706004441.

N.N. Usanova



BALANCE SHEET

as of December 31, 2016

Annex to Order of the Russian Ministry of Finance No. 66n dated July 2, 2010 (as revised by Order of the Russian Ministry of Finance No. 124n dated October 5, 2011)

Organization **Public Joint-Stock Company "Federal Grid Company of Unified Energy System"**

Tax identification code

Activity **power transmission**

Form of corporate entity's incorporation/ form of ownership **public joint-stock company/mixed Russian assets with a federal share**

Unit: **RUB thousand**

Location (address) **5A Akademika Chelomeya Street, Moscow, Russia, 117630**

CODES	
OKUD Form No. 1	0710001
Date (year, month, day)	31.12.2016
as per OKPO	56947007
INN	4716016979
as per OKVED	35.12
as per OKOPF/OKFS	47/41
as per OKEI	384
Approval date	
Mailing (acceptance) date	

Notes	ASSET	Indicator code	As of December 31, 2016	As of December 31, 2015	As of December 31, 2014
1	2	3	4	5	6
I. NON-CURRENT ASSETS					
S.1 of Notes* S.3.2 of Annexes**	Intangible assets	1110	3,326,907	3,494,151	3,265,522
S.1 of Notes* S.3.6 of Annexes**	Research and development results	1120	163,047	243,651	324,255
S.2 of Notes* S.3.3 of Annexes**	Fixed assets, including:	1130	857,440,111	823,624,985	788,861,095
	land plots and natural resources	1131	1,721,968	1,698,972	1,631,794
	buildings, machinery and equipment, structures	1132	852,356,759	817,957,414	782,636,932
	other fixed assets	1133	3,361,384	3,968,599	4,592,369
	Income-bearing investments in tangible assets	1140	—	—	—
S.3 of Notes* S.3.7 of Annexes**	Financial investments	1150	71,824,222	32,339,155	25,764,856
	Deferred tax assets	1160	—	—	—
S.2 of Notes*	Other non-current assets, including:	1170	250,509,851	264,636,543	299,704,867
	investments into non-current assets	1171	33,328,127	33,850,277	33,218,459
S.3.4 of Annexes**	other non-current assets	1172	191,073,182	209,738,793	226,376,514
S.5.1 of Notes* S.3.9 of Annexes**	advances against non-current assets	1173	25,790,087	20,854,723	39,761,614
S.3.11 of Annexes**	equipment for installation	1174	318,455	192,750	348,280
	TOTAL for Section I	1100	1,183,264,138	1,124,338,485	1,117,920,595
II. CURRENT ASSETS					
S.4 of Notes* S.3.10 of Annexes**	Inventory, including:	1210	9,108,558	12,632,339	9,635,100
	raw materials, materials and other similar assets	1211	9,108,558	12,632,325	9,635,083
	finished goods and goods for sale	1212	—	14	17
	Value added tax on purchased assets	1220	493,970	881,583	1,146,693
S.5 of Notes* S.3.9 of Annexes**	Accounts receivable, including:	1230	135,201,277	69,491,215	60,162,888
	Accounts receivable (payments are expected over more than 12 months upon the balance sheet date), including:	1231	11,327,562	9,503,739	1,110,748
	customers and consumers	1232	10,485,059	8,654,597	4,877
	advance payments made	1233	—	—	—
	other debtors	1234	842,503	849,142	1,105,871
	Accounts receivable (payments are expected within 12 months from the balance sheet date), including:	1235	123,873,715	59,987,476	59,052,140
	customers and consumers	1236	89,976,088	39,753,400	37,501,050
	amounts owed by members (founders) as share capital payments	1237	—	—	—
	advance payments made	1238	515,934	766,050	1,559,543
	other debtors	1239	33,381,693	19,468,026	19,991,547
S.3 of Notes* S.3.8 of Annexes**	Financial investments (except cash equivalents)	1240	2,067,318	38,893,489	2,762,466
S.3.19 of Annexes**	Cash and cash equivalents	1250	36,007,838	21,977,333	39,480,358
S.3.11 of Annexes**	Other current assets	1260	30,698	87,002	108,866
	TOTAL for Section II	1200	182,909,659	143,962,961	113,296,371
	BALANCE	1600	1,366,173,797	1,268,301,446	1,231,216,966

Full version of annual accounting statements of Federal Grid Company for 2016 is provided in Appendix 13.

Notes	LIABILITY	Indicator code	As of December 31, 2016	As of December 31, 2015	As of December 31, 2014
1	2	3	4	5	6
III. CAPITAL and RESERVES					
S.3.1 of Annexes**	Share capital (contributed capital, authorized fund, contributions of partners)	1310	637,332,662	637,332,662	637,332,662
	Shares repurchased	1320	—	—	—
	Revaluation of non-current assets	1340	258,523,592	246,420,309	235,563,921
S.3.1 of Annexes**	Additional capital (without revaluation)	1350	31,867,163	31,867,163	31,867,163
	Reserve capital	1360	14,188,807	13,295,300	13,038,463
	Undistributed profit (uncovered loss), including:	1370	45,088,345	(43,529,255)	(63,312,639)
	Undistributed profit of past years	1371	(60,982,566)	(43,529,255)	(63,312,639)
	Undistributed profit of the reporting year	1372	—	—	—
	Uncovered loss of the reporting year	1373	106,070,911	—	—
	Uncovered loss of past years	1374	—	—	—
	TOTAL for Section III	1300	987,000,569	885,386,179	854,489,570
IV. LONG-TERM LIABILITIES					
S.3.12 of Annexes**	Borrowings and loans	1410	236,653,463	249,660,368	232,771,196
	Deferred tax liabilities	1420	49,658,250	44,035,756	34,211,465
	Estimated liabilities	1430	—	—	—
	Other liabilities	1450	512,667	462,788	453,029
	TOTAL for Section IV	1400	286,824,380	294,158,912	267,435,690
V. SHORT-TERM LIABILITIES					
	Borrowings and loans	1510	29,195,354	31,361,933	29,544,812
S.5.3 of Notes* S.3.13 of Annexes**	Accounts payable, including:	1520	60,031,744	54,748,132	77,550,930
	suppliers and contractors	1521	31,047,890	42,279,852	67,205,391
	payables to employees	1522	21,370	18,486	221,038
	payables to state non-budgetary funds	1523	555	310,101	84,162
	taxes and fees payable	1524	16,731,083	4,062,955	1,326,189
	advances received	1525	8,171,878	6,129,644	6,085,001
	other creditors	1526	3,984,504	1,939,360	2,619,738
	payables to members (founders)	1527	74,464	7,734	9,411
	Deferred income	1530	694,921	740,903	760,936
	Estimated liabilities	1540	2,426,829	1,905,387	1,435,028
	Other liabilities	1550	—	—	—
S.7 of Notes*	TOTAL for Section V	1500	92,348,848	88,756,355	109,291,706
	BALANCE	1700	1,366,173,797	1,268,301,446	1,231,216,966

* – Notes to the Balance Sheet and Statement of Financial Performance for 2016.

** – Annexes to the annual 2016 Financial Statements.

Chief Executive

(signature)

A.E. Murov

(print full name)

Chief Accountant

(signature)

A.P. Noskov

(print full name)

20 February 2017

Full version of annual accounting statements of Federal Grid Company for 2016 is provided in Appendix 13.



STATEMENT OF FINANCIAL RESULTS for 2016

Annex to Order of the Russian Ministry of Finance No. 66n dated July 2, 2010 (as revised by Order of the Russian Ministry of Finance No. 124n dated October 5, 2011)

Form 0710002 p. 2

Organization **Public Joint-Stock Company "Federal Grid Company of Unified Energy System"**
Tax identification code
Activity **power transmission**
Form of corporate entity's incorporation/ form of ownership **public joint-stock company/mixed Russian assets with a federal share**

Unit: **RUB thousand**

CODES	
OKUD Form No. 2	0710002
Date (year, month, day)	31.12.2016
as per OKPO	56947007
INN	4716016979
as per OKVED	35.12
as per OKOPF/OKFS	47/41
as per OKEI	384

Notes	Indicator Description	Code	For the reporting period	For the same period of the last year
1	2	3	3	4
	General income and expenses			
	Revenue from sale of goods, products and services (net of VAT, excise duties and other similar mandatory payments), including:	2110	218,366,451	173,266,394
	services for electric power transmission	2111	171,133,002	158,986,316
	other activity	2112	47,233,449	14,280,078
S.6 of Notes*	Production cost of goods, products and services sold, including:	2120	(140,037,974)	(134,938,305)
	services for electric power transmission	2121	(138,756,529)	(133,534,773)
	other activity	2122	(1,281,445)	(1,403,532)
	Gross profit (2110 + 2120)	2100	78,328,477	38,328,089
	Commercial expenses	2210	–	–
S.6 of Notes*	Administrative expenses	2220	(8,032,766)	(7,850,741)
	Profit (loss) from sales (2100 + 2210 + 2220)	2200	70,295,711	30,477,348
	Income from participation in other companies	2310	260,824	100,849
	Interest income	2320	7,807,492	8,211,453
	Interest expenses	2330	(6,230,558)	(8,464,150)
S.3.15 of Annexes**	Other income	2340	72,954,542	23,540,512
S.3.15 of Annexes**	Other expenses	2350	(20,767,964)	(25,981,751)
	Profit (loss) before tax (2200 + 2310 + 2320 + 2330 + 2340 + 2350)	2300	124,320,047	27,884,261
S.3.5 of Annexes**	Current income tax, including:	2410	(12,568,840)	(69,822)
	<i>permanent tax liabilities</i>	2411	6,672,675	(4,317,261)
S.3.5 of Annexes**	Change in deferred tax liabilities	2430	(5,851,047)	(9,530,440)
S.3.5 of Annexes**	Change in deferred tax assets	2450	228,553	(293,851)
	Other, including:	2460	(57,802)	(120,011)
	<i>Other similar mandatory payments</i>	2461	(6,843)	(120,011)
	<i>Income tax adjustment for the previous periods</i>	2462	(50,959)	(–)
	Net profit (loss) for the reporting period	2400	106,070,911	17,870,137

Full version of annual accounting statements of Federal Grid Company for 2016 is provided in Appendix 13.

Notes	Indicator name	As of December 2016	As of December 2015
	FOR REFERENCE		
S.3.3 of Annexes**	Result of the fixed assets revaluation, not included in the net profit (loss) for the period	12,520,106	13,866,221
	Gain or loss from other operations not included in the net profit for the period		
	Total financial result for the period	118,591,017	31,736,358
S.3.16 of Annexes**	Basic earnings (loss) per share	0.0832	0.01402
	Diluted earnings (loss) per share		

* – Notes to the Balance Sheet and Statement of Financial Performance for 2016.

** – Annexes to the annual 2016 Financial Statements.

Chief Executive **A.E. Murov** Chief Accountant **A.P. Noskov**
(signature) (print full name) (signature) (print full name)

20 February 2017

Full version of annual accounting statements of Federal Grid Company for 2016 is provided in Appendix 13.



STATEMENT OF CHANGES IN EQUITY for 2016

Annex to Order of the Russian Ministry
of Finance No. 66n dated July 2, 2010
(as revised by Order of the Russian Ministry
of Finance No. 124n dated October 5, 2011)

Organization **Public Joint-Stock Company "Federal Grid Company
of Unified Energy System"**

Tax identification code

Activity **power transmission**

Form of corporate entity's incorporation/ form of ownership **public joint-stock
company/mixed Russian assets with a federal share**

Unit: **thousand RUR** (million RUR)

	CODES
OKUD Form No. 2	0710003
Date (year, month, day)	31.12.2016
as per OKPO	56947007
INN	4716016979
as per OKVED	35.12
as per OKOPF/OKFS	47/41
as per OKEI	384

1. Changes in equity

Indicator name	Code	Authorized capital	Treasury shares repurchased from shareholders	Additional capital	Reserve capital	Undistributed profits (uncovered loss)	Total
Capital value as of December 31, 20 14 ¹	3100	637,332,662	—	267,431,084	13,038,463	(63,312,639)	854,489,570
For 2015 r.²							
Increase in capital value — total:	3210	—	—	13,866,221	—	17,870,137	31,736,358
including:							
net profit	3211	x	x	x	x	17,870,137	17,870,137
property revaluation	3212	x	x	13,866,221	x	—	13,866,221
income relating directly to the increase in capital value	3213	x	x	—	x	—	—
additional issue of shares	3214	—	—	—	x	x	—
increase of share denomination	3215	—	—	—	x	—	x
reorganization of legal entity	3216	—	—	—	—	—	—
other	3217	—	—	—	—	—	—

Form 0710023 p. 2

Indicator name	Code	Authorized capital	Treasury shares repurchased from shareholders	Additional capital	Reserve capital	Undistributed profits (uncovered loss)	Total
Reduction of capital value — total:	3220	—	—	—	—	(839,749)	(839,749)
including:							
loss	3221	x	x	x	x	—	—
property revaluation	3222	x	x	—	x	—	—
expenses relating directly to the reduction of capital value	3223	x	x	—	x	—	—
decrease of share denomination	3224	—	—	—	x	—	—
reduction of shares quantity	3225	—	—	—	x	—	—
reorganization of legal entity	3226	—	—	—	—	—	—
dividends	3227	x	x	x	x	(839,749)	(839,749)
Changes in the additional capital	3230	x	x	(3,009,833)	—	3,009,833	x
Changes in the reserve capital	3240	x	x	x	256,837	(256,837)	x
Capital value as of December 31, 2015	3200	637,332,662	—	278,287,472	13,295,300	(43,529,255)	885,386,179

Full version of annual accounting statements of Federal Grid Company for 2016 is provided in Appendix 13.

Indicator name	Code	Authorized capital	Treasury shares repurchased from shareholders	Additional capital	Reserve capital	Undistributed profits (uncovered loss)	Total
For 2016 r.³							
Increase in capital value — total:	3310	—	—	12,520,106	—	106,070,911	118,591,017
including:							
net profit	3311	x	x	x	x	106,070,911	106,070,911
property revaluation	3312	x	x	12,520,106	x	—	12,520,106
income relating directly to the increase in capital value	3313	x	x	—	x	—	—
additional issue of shares	3314	—	—	—	x	x	—
increase of share denomination	3315	—	—	—	x	—	x
reorganization of legal entity	3316	—	—	—	—	—	—
Reduction of capital value — total:	3320	—	—	—	—	(16,976,627)	(16,976,627)
including:							
loss	3321	x	x	x	x	—	—
property revaluation	3322	x	x	—	x	—	—
expenses relating directly to the reduction of capital value	3323	x	x	—	x	—	—
decrease of share denomination	3324	—	—	—	x	—	—
reduction of shares quantity	3325	—	—	—	x	—	—
reorganization of legal entity	3326	—	—	—	—	—	—
dividends	3327	x	x	x	x	(16,976,627)	(16,976,627)
other	3328	—	—	—	—	—	—
Changes in the additional capital	3330	x	x	(416,823)	—	416,823	x
Changes in the reserve capital	3340	x	x	x	893,507	(893,507)	x
Capital value as of December 31, 2016 ³	3300	637,332,662	—	290,390,755	14,188,807	45,088,345	987,000,569

2. Corrections due to changes in the accounting policy and errors elimination

Form 0710023 p. 3

Indicator name	Code	As of December 31, 2014 ¹	Changes in equity for 2015 ²		As of December 31, 2015 ²
			due to net profit (loss)	due to other factors	
Equity — total					
before corrections	3400	—	—	—	—
correction due to:					
changes in the accounting policy	3410	—	—	—	—
errors elimination	3420	—	—	—	—
after corrections	3500	—	—	—	—
including:					
retained earnings (uncovered loss):					
before corrections	3401	—	—	—	—
correction due to:					
changes in the accounting policy	3411	—	—	—	—
errors elimination	3421	—	—	—	—
after corrections	3501	—	—	—	—
other capital items subject to corrections: (per items)					
before corrections	3402	—	—	—	—
correction due to:					
changes in the accounting policy	3412	—	—	—	—
errors elimination	3422	—	—	—	—
after corrections	3502	—	—	—	—

3. Net assets

Indicator name	Code	As of December 31, 2016 ³	As of December 31, 2015 ²	As of December 31, 2014 ¹
Net assets	3600	987,695,490	886,127,082	855,250,506

Chief Executive

(signature)

A.E. Murov

(print full name)

Chief Accountant

(signature)

A.P. Noskov

(print full name)

20 February 2017

Notes 1. The year preceding the previous year is indicated. 2. The previous year is indicated. 3. The reporting year is indicated.
Full version of annual accounting statements of Federal Grid Company for 2016 is provided in Appendix 13.



CASH FLOW STATEMENT for 2016

Annex to Order of the Russian Ministry
of Finance No. 66n dated July 2, 2010
(as revised by Order of the Russian Ministry
of Finance No. 124n dated October 5, 2011)

	CODES
Organization Public Joint-Stock Company "Federal Grid Company of Unified Energy System"	OKUD Form No. 0710004
Tax identification code	Date (year, month, day) 31.12.2016
Activity power transmission	as per OKPO 56947007
Form of corporate entity's incorporation/ form of ownership public joint-stock company/mixed Russian assets with a federal share	INN 4716016979
Unit: RUB thousand	as per OKVED 35.12
	as per OKOPF/OKFS 47/41
	as per OKEI 384

Indicator name	Code	For 2016	For 2015
1	2	3	4
Cash flows from current transactions			
Receipts – total	4110	186,808,522	173,692,115
including:	4111	177,950,601	160,139,058
from sale of products, goods, work and services/lease payments, license fees, royalties, commission charges and other similar payments	4112	866,454	972,286
from resale of financial investments	4113	–	–
other receipts	4119	7,991,467	12,580,771
Payments – total, including:	4120	(87,611,024)	(74,602,597)
to suppliers (contractors) for raw materials, materials, work and services	4121	(33,971,675)	(33,403,893)
remuneration of labor	4122	(16,006,034)	(16,197,793)
debt interest	4123	(8,395,873)	(6,645,116)
corporate tax	4124	(5,032,447)	1,164,771
other payments	4129	(24,204,995)	(19,520,566)
Balance of cash flows from current transactions	4100	99,197,498	99,089,518
Cash flows from investment transactions			
Receipts – total, including:	4210	53,710,709	10,357,241
from sale of fixed assets (except financial investments)	4211	1,135,169	1,337,320
from sale of other companies' shares (participatory interest)	4212	8,625	568,000
from repayment of granted loans, from sale of debt securities (claims for cash against third parties)	4213	47,478,220	5,988,017
dividends, interest on debt financial investments and other similar income from participatory interest in other companies	4214	5,088,695	2,463,904
budget subsidy	4218	–	–
other receipts	4219	–	–
Payments – total, including:	4220	(108,892,895)	(142,986,572)
payments associated with the acquisition, establishment, upgrading, reconstruction and preparation for the use of fixed assets	4221	(79,203,529)	(75,449,636)
from purchase of other companies' shares (participatory interest)	4222	(–)	(192,192)
from purchase of debt securities (claims for cash against third parties), granting loans to third parties	4223	(10,355,719)	(43,416,320)
debt interest included in the investment asset value	4224	(19,333,517)	(23,926,874)
from budget subsidy	4228	–	–
other payments	4229	(130)	(1,550)
Balance of cash flows from investment transactions	4200	(55,182,186)	(132,629,331)

Full version of annual accounting statements of Federal Grid Company for 2016 is provided in Appendix 13.

Indicator name	Code	For 2016	For 2015
1	2	3	4
Cash flows from financial transactions			
Receipts – total, including:	4310	10,163,523	40,094,200
obtaining of credits and loans	4311	164,771	99,200
monetary contributions of owners (members)	4312	–	–
from issue of shares, participatory interest increase	4313	–	–
from issue of bonds, promissory notes and other debt securities	4314	9,998,750	39,995,000
other receipts	4319	2	–
Payments – total, including:	4320	(40,148,306)	(24,057,411)
to owners (members) due to repurchase of shares (participatory interest) of their organization or their cessation of membership	4321	–	–
for payment of dividends and other distribution payments profit to owners (members)	4322	(16,976,630)	(847,383)
due to the payment of promissory notes and other debt securities, repayment of credits and loan	4323	(23,171,676)	(23,210,028)
other payments	4329	–	–
Cash flow balance from financial operations	4300	(29,984,783)	16,036,789
Cash flow balance for the reporting period	4400	14,030,529	(17,503,024)
Cash and cash equivalents balance as of the beginning of the reporting year	4450	21,977,309	39,480,333
Cash and cash equivalents balance as of the end of the reporting year	4500	36,007,838	21,977,309
Influence of foreign currency change versus RUR	4490		

Chief Executive (signature) A.E. Murov (print full name) Chief Accountant (signature) A.P. Noskov (print full name)

20 February 2017

Full version of annual accounting statements of Federal Grid Company for 2016 is provided in Appendix 13.

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21.03.2017 № PCM-1810



Independent Auditor's Report

To: the Shareholders of PJSC «FGC UES»

Audited entity:

Public Joint-Stock Company "Federal Grid Company of Unified Energy System" (abbreviated name ("FGC UES").

Location: 5A Akademika Chelomeya Street, Moscow 117630, Russian Federation;

Primary state registration number – 1024701893336.

Auditor:

RSM RUS Ltd.

Location: 4, Pudovkina Str., Moscow, 119285;

Tel.: (495) 363-28-48; Fax: (495) 981-41-21;

Primary state registration number – 1027700257540;

RSM RUS Ltd. is a member of Self-regulatory organization of auditors Association "Sodruzhestvo" (membership certificate # 6938, ORNZ 11306030308), location: 21, Michurinsky Ave., bldg. 4, Moscow, 119192.

Opinion

We have audited the consolidated financial statements of PJSC "FGC UES" and its subsidiaries (the Group), which comprise the Consolidated Statement of Financial Position as of 31 December 2016, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

RSM RUS LLC is a member of the RSM network and operates as RSM. RSM is a trademark used by members of the RSM network. The RSM network consists of independent accounting and consulting companies, performing independent activities. The RSM network itself does not constitute a separate legal entity in any jurisdiction.

Revaluation and impairment of property, plant and equipment

In our opinion, this matter was one of most significance in our audit due to a significant share of property, plant and equipment in total assets of the Group, high level of subjectivity of assumptions used to determine the fair value as well as materiality of judgments and estimates made by the management in determining the replacement cost of property, plant and equipment.

The majority of the Group's property, plant and equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business, making it impossible to use market-based approaches for determining its fair value. Consequently the fair value of such items is primarily determined by the Group using depreciated replacement cost valuation method.

We have performed procedures of analysis and testing of the model used in making the estimates, assessment of adequacy of assumptions underlying the estimates, including assumptions in respect of projected revenue, tariffs decisions, discount rates etc.

We have also reviewed the relevant controls in respect of the estimates, consideration by management of estimation uncertainty and changes in approaches as compared to the previous period. We have reviewed the actual outcomes of the use of the model to obtain sufficient and appropriate audit evidence about whether the management in making the estimates complied with IFRS requirements, the methods used in estimates of tests are appropriate and are applied consistently and the changes in estimates are reasonable based on information available at the date of preparation of the accounts.

For testing the model of estimate and underlying assumptions, we have engaged an expert in accordance with the procedure established by ISA.

We have evaluated the accuracy and sufficiency of information disclosure in the consolidated financial statements about determination of the fair value of property, plant and equipment, including information about uncertainties taken into consideration when making the estimates.

Information about the manner of determining the fair value of the Group's property, plant and equipment is provided in Note 6 "Property, plant and equipment" to the consolidated financial statements.

Impairment of accounts receivable

In our opinion, this matter was one of most significance in our audit due to significant balances of accounts receivable as at 31 December 2016. The management estimate of recoverability of accounts receivable is complex, largely subjective and based on the assumptions, in particular, forecasting financial solvency of the Group's counterparties.

We have performed procedures of evaluation of the adequacy of the Group's policy on reviewing accounts receivable and determining if allowance for impairment should be accrued, as well as procedures of confirming the reasonableness of the estimates made by the management of the Group, including specific characteristics of specific clients, their financial solvency, dynamics of collection of accounts receivable, payments and arrangements after the balance-sheet date, as well as review of expected future cash flows.

Accrued allowance for impairment of accounts receivable is disclosed by the Group in Notes 6, 10 and 13 to the consolidated financial statements.

Assessment of control and significant influence in respect of the Group entities

In our opinion, this matter was one of most significance in our audit of the consolidated financial statements because in July, 2016 the Group lost control over the subsidiary OJSC "Nurenergo" following the court ruling. As a result, gain from loss of control in the amount of RUB 11,868 mln. was recognized in the accounts. In January, 2017 following the ruling of the court of appeal, the previous court decision was revoked, as a result, the Group again obtained control over OJSC "Nurenergo".

We have performed procedures of evaluation of completeness and accuracy of recognition of transactions related to loss of control in the consolidated financial statements, as well as subsequent disclosures of post-balance-sheet events related to regaining control.

Information about changes in the Group is provided in Notes 2 and 30 to the consolidated financial statements.

Recognition of income from revaluation of available-for-sale financial investments

In our opinion, this matter was one of most significance in our audit of the consolidated financial statements because a significant income from revaluation of available-for-sale financial investments in the amount of RUB 53,040 mln. is recognized in the consolidated financial statements. This income was formed as result of significant growth of quotations of the Group's financial investments in shares of PJSC "Inter RAO".

We have performed procedures of evaluation of completeness and accuracy of recognition of income from revaluation of financial investments in the consolidated financial statements, analyzed if there were fundamental factors of the growth of the market value of shares of PJSC "Inter RAO" and reviewed the completeness of disclosure in the consolidated financial statements.

Information about changes in quotations of shares is provided by the Group in Note 9 to the consolidated financial statements.

Responsibilities of Management and the Audit Committee of the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statement, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Management Board Chairperson

Audit Certificate No. 05-000015. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 15 November 2011 No. 24. Permanent award.

ORNZ in the Register of auditors and audit organizations – 21706004215



N.A. Dantser




N.N. Usanova

Manager responsible for the audit

Audit Certificate No. 05-000030. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 30 November 2011 No. 25. Permanent award.

ORNZ in the Register of auditors and audit organizations – 21706004441



PJSC "FGC UES"

Consolidated Statement of Financial Position

(in millions of Russian Rouble unless otherwise stated)

Notes	31 December 2016	31 December 2015
ASSETS		
Non-current assets		
Property, plant and equipment	846,695	821,114
Intangible assets	7,320	7,752
Investments in associates and joint ventures	1,160	1,691
Available-for-sale investments	76,537	22,271
Deferred income tax assets	14	260
Long-term accounts receivable	45,145	15,180
Other non-current assets	1,853	1,799
Total non-current assets	978,724	870,067
Current assets		
Cash and cash equivalents	44,404	28,176
Bank deposits	450	30,269
Accounts receivable and prepayments	58,187	50,043
Income tax prepayments	305	432
Inventories	14,900	16,063
Other current assets	140	278
Total current assets	118,386	125,261
TOTAL ASSETS	1,097,110	995,328
EQUITY AND LIABILITIES		
Equity		
Share capital: Ordinary shares	637,333	637,333
Treasury shares	(4,719)	(4,719)
Share premium	10,501	10,501
Reserves	281,759	229,578
Accumulated deficit	(198,273)	(252,980)
Equity attributable to shareholders of FGC UES	726,601	619,713
Non-controlling interest	1,816	(75)
Total equity	728,417	619,638
Non-current liabilities		
Deferred income tax liabilities	25,433	14,589
Non-current debt	236,954	250,076
Deferred income	919	1,105
Retirement benefit obligations	5,959	7,357
Total non-current liabilities	269,265	273,127
Current liabilities		
Accounts payable to shareholders of FGC UES	73	6
Current debt and current portion of non-current debt	29,660	31,466
Accounts payable and accrued charges	62,059	71,036
Income tax payable	7,636	55
Total current liabilities	99,428	102,563
Total liabilities	368,693	375,690
TOTAL EQUITY AND LIABILITIES	1,097,110	995,328

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

21 March 2017

Chairman of the Management Board

Head of Accounting and Financial Reporting – Chief Accountant

A.E. Murov

A.P. Noskov

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

Full version of consolidated financial statements of FGC UES Group for 2016 is provided in Appendix 14.



PJSC "FGC UES"

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(in millions of Russian Rouble unless otherwise stated)

Notes	Year ended 31 December 2016	Year ended 31 December 2015
Revenues	255,603	187,041
Other operating income	6,039	4,001
Operating expenses	(155,508)	(130,963)
Gain on derecognition of subsidiary	11,868	–
Impairment and revaluation loss on property, plant and equipment, net	(38,155)	(2,850)
Operating profit	79,847	57,229
Finance income	6,974	8,701
Finance costs	(8,010)	(9,635)
Share of loss of associates and joint ventures	(327)	(8)
Profit before income tax	78,484	56,287
Income tax expense	(10,102)	(12,189)
Profit for the period	68,382	44,098
Other comprehensive income / (loss)		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Change in revaluation reserve for property, plant and equipment	14,280	117
Remeasurements of retirement benefit obligations	1,500	(3,005)
Income tax relating to items that will not be reclassified	(2,948)	570
<i>Total items that will not be reclassified to profit or loss</i>	12,832	(2,318)
<i>Items that are or may be reclassified subsequently to profit or loss</i>		
Change in fair value of available-for-sale investments	54,266	7,776
Foreign currency translation difference	(204)	(152)
Income tax relating to items that may be reclassified	(10,853)	(1,556)
<i>Total items that are or may be reclassified to profit or loss</i>	43,209	6,068
Other comprehensive income for the period, net of income tax	56,041	3,750
Total comprehensive income for the period	124,423	47,848
Profit / (loss) attributable to:		
Shareholders of FGC UES	68,159	44,768
Non-controlling interest	223	(670)
Total comprehensive income / (loss) attributable to:		
Shareholders of FGC UES	123,705	48,499
Non-controlling interest	718	(651)
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	0.054	0.036

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

Full version of consolidated financial statements of FGC UES Group for 2016 is provided in Appendix 14.



PJSC "FGC UES"

Consolidated Statement of Cash Flows

(in millions of Russian Rouble unless otherwise stated)

Notes	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES:	78,484	56,287
Profit before income tax		
<i>Adjustments to reconcile profit before income tax to net cash provided by operations</i>		
Depreciation of property, plant and equipment	22 39,397	39,447
(Gain) / loss on disposal of property, plant and equipment	22 (72)	3,699
Amortisation of intangible assets	22 1,330	1,481
Impairment and revaluation loss of property, plant and equipment, net	6 38,155	2,850
Gain on derecognition of subsidiary	30 (11,868)	–
Share of result of associates	8 327	8
Accrual of allowance for doubtful debtors	22 2,666	7,063
Accrual of other provision for liabilities and charges	20 2,502	434
Finance income	23 (6,974)	(8,701)
Finance costs	8,010	9,635
Other non-cash operating income	24 (39)	(74)
Operating cash flows before working capital changes and income tax paid	151,918	112,129
<i>Working capital changes:</i>		
Increase in accounts receivable and prepayments	(43,273)	(12,824)
Decrease / (increase) in inventories	1,144	(5,607)
(Increase) / decrease in other non-current assets	(69)	387
Increase in accounts payable and accrued charges	7,375	5,865
Decrease in retirement benefit obligations	(511)	(2,833)
Income tax (paid) / received	(5,108)	906
Net cash generated by operating activities	111,476	98,023
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(78,872)	(75,604)
Proceeds from disposal of property, plant and equipment	4,864	1,980
Purchase of intangible assets	(898)	(948)
Redemption of promissory notes	206	667
Investment in bank deposits	(5,257)	(30,422)
Redemption of bank deposits	35,085	337
Dividends received	353	21
Loans given	(18)	(1,000)
Purchase of subsidiary	(4)	(293)
Sale of subsidiary	14	568
Interest received	6,569	7,452
Net cash used in investing activities	(37,958)	(97,242)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from non-current borrowings	10,165	40,099
Proceeds from current borrowings	350	–
Repayment of current and non-current borrowings	(23,172)	(23,210)
Repayment of lease	(150)	(150)
Dividends paid	(16,751)	(840)
Interest paid	(27,732)	(30,572)
Net cash used in financing activities	(57,290)	(14,673)
Net increase / (decrease) in cash and cash equivalents	16,228	(13,892)
Cash and cash equivalents at the beginning of the period	28,176	42,068
Cash and cash equivalents at the end of the period	44,404	28,176

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

Full version of consolidated financial statements of FGC UES Group for 2016 is provided in Appendix 14.



PJSC "FGC UES"

Consolidated Statement of Changes in Equity

(in millions of Russian Rouble unless otherwise stated)

Notes	Attributable to shareholders of FGC UES						Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Reserves	Accumulated deficit	Total		
As at 1 January 2016	637,333	10,501	(4,719)	229,578	(252,980)	619,713	(75)	619,638
Total comprehensive income for the period								
Profit for the period	–	–	–	–	68,159	68,159	223	68,382
<i>Other comprehensive income / (loss), net of related income tax</i>								
Derecognition of revaluation reserve on disposed property, plant and equipment	15	–	–	–	(3,365)	3,365	–	–
Change in revaluation reserve for property, plant and equipment	6, 15	–	–	–	10,929	–	495	11,424
Change in fair value of available-for-sale investments	9, 15	–	–	–	43,413	–	–	43,413
Remeasurements of retirement benefit obligations	15, 18	–	–	–	1,408	–	–	1,408
Foreign currency translation difference	8, 15	–	–	–	(204)	–	–	(204)
Total other comprehensive income					52,181	3,365	495	56,041
Total comprehensive income for the period					52,181	71,524	718	124,423
Transactions with shareholders of FGC UES recorded directly in equity								
Dividends declared		–	–	–	(16,817)	(16,817)	(1)	(16,818)
Total transactions with shareholders of FGC UES					(16,817)	(16,817)	(1)	(16,818)
Changes in ownership								
Derecognition of subsidiary		–	–	–	–	–	1,174	1,174
Total changes in ownership							1,174	1,174
As at 31 December 2016	637,333	10,501	(4,719)	281,759	(198,273)	726,701	1,816	728,417

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

Full version of consolidated financial statements of FGC UES Group for 2016 is provided in Appendix 14.



PJSC "FGC UES"

Consolidated Statement of Changes in Equity

(in millions of Russian Rouble unless otherwise stated)

Notes	Attributable to shareholders of FGC UES						Total	Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Reserves	Accumulated deficit				
As at 1 January 2015	637,333	10,501	(4,719)	226,382	(297,237)	572,260	971	573,231	
Total comprehensive income for the period									
Profit for the period	–	–	–	–	44,768	44,768	(670)	44,098	
<i>Other comprehensive income / (loss), net of related income tax</i>									
Change in revaluation reserve for property, plant and equipment	15	–	–	–	75	75	19	94	
Change in fair value of available-for-sale investments	9, 15	–	–	–	6,221	6,221	–	6,221	
Remeasurements of retirement benefit obligations	15, 18	–	–	–	(2,413)	(2,413)	–	(2,413)	
Foreign currency translation difference	8, 15	–	–	–	(152)	(152)	–	(152)	
<i>Total other comprehensive income</i>					3,731	3,731	19	3,750	
Total comprehensive income for the period					3,731	44,768	(651)	47,848	
Transactions with shareholders of FGC UES recorded directly in equity									
Dividends declared		–	–	–	–	(832)	(1)	(833)	
Total transactions with shareholders of FGC UES						(832)	(1)	(833)	
Changes in ownership									
Acquisition of subsidiary		–	–	–	–	(214)	58	(156)	
Disposal of subsidiary		–	–	–	(535)	535	(452)	(452)	
Total changes in ownership						(214)	(394)	(608)	
As at 31 December 2015	637,333	10,501	(4,719)	229,578	(252,980)	619,713	(75)	619,638	

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

Full version of consolidated financial statements of FGC UES Group for 2016 is provided in Appendix 14.

Disclaimer

This Annual Report includes, among other things, statements regarding the Company's future operations based on management's current forecasts and assessments. There are a number of objective factors that could cause the actual results to differ from the above forecasts and assessments.

The Annual Report contains certain forward-looking statements regarding the Company's business operations, economic and financial indicators, as well as its business plans, projects and expectations. In addition, this Annual Report may include estimates of price changes, production and consumption volumes, costs, expenses, development prospects and other similar factors, as well as forecasts on industry and market development, and start and end dates of certain projects of the Company.

Forward-looking statements can be identified by the use of such terminology as "intend," "strive," "project," "expect," "estimate," "plan," "anticipate," "assume," "may," "could be," "will be," "continue," or similar words and expressions or variations thereof.

By their nature, forward-looking statements involve risks and uncertainties, both general and specific, which may cause the relevant assumptions, forecasts, projections and other forward-looking statements to not materialise. In view of the above risks, uncertainties and assumptions, the Company warns that the actual results may differ materially from those expressed or implied, and such forward-looking statements are true only as of the date of the Annual Report's publication.

The Company neither promises nor guarantees that the above results will be achieved. The Company shall not be held liable for any losses incurred by legal entities or individuals who relied on forward-looking statements. Such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely scenario.

Except as required by the applicable legislation, the Company does not undertake any obligation to publicly release any updates or revisions of such forward-looking statements, whether as a result of new information or future events.

Glossary

Abbreviations

ADCS	Automated Dispatch Control System
APCS	Automated Process Control System
CBETL	Cross-Border Electricity Transmission Line
CHP	Combined Heat and Power
CIMS	Corporate Information Management System
CIS	The Commonwealth of Independent States
CIUS UES	JSC Centre for Engineering and Construction Management of Unified Energy System
DECT	Digital European Cordless Telecommunications
EBITDA	Earnings before Interest, Taxation, Depreciation & Amortisation
ESUPCN	Energy System's Unified Process Communications Network
FFMS	Federal Financial Market Service
FOCL	Fiber-Optical Communication Line
FTP	Federal Targeted Programme
FTS of Russia	Federal Tariff Service of Russia
GDR	Global Depository Receipt
GDP	Gross Domestic Product

GMS	General Meeting of Shareholders
GRES	State District Power Plant
HPP	Hydro Power Plant
HR	Human Resources
HVL	High Voltage Line
IFRS	International Financial Reporting Standards
IDGC	Inter-regional Distribution Grid Company
ICS	Internal Control System
IPS	Integrated Power System
ISIN	International Securities Identification Number
IT	Information Technology
JSC	Joint Stock Company
KPI	Key Performance Indicator
LLC	Limited Liability Company
MES	Backbone Electric Grid
MICEX	Moscow Interbank Currency Exchange
NPP	Nuclear Power Plant
OHL	Overhead Line
OHTL	Overhead Transmission Line
OSG	Outdoor Switchgear
PABX	Private Automated Branch Exchange
PJSC FGC UES	Public Joint Stock Company Federal Grid Company of Unified Energy System
PMES	Backbone Electric Grid Enterprise
PSPP	Pumped Storage Power Plant
PTL	Power Transmission Line
R&D	Research and Development
RAS	Russian Accounting Standards
RAB	Regulatory Asset Base
Rosstat	Federal State Statistics Service
SS	Substation
UES of Russia	Unified Energy System of Russia
UNEG	Unified National (all-Russian) Electric Grid
VAT	Value Added Tax
WECM	Wholesale Electricity and Capacity Market

Units of measure

bn	billion	mln	million
cub. m	cubic metre	MVA	megavolt-ampere
Gcal	gigacalorie	MVAR	megavolt-ampere reactive
GW	gigawatt	MW	megawatt
h	hour	MWh	Megawatt-hour
km	kilometer	pcs	pieces
kV	kilovolt	p.p.	Percentage point
kW	kilowatt	RUB	Russian rouble
kWh	Kilowatt-hour	sq. m	square metre
m	metre	t	ton

Contacts

State Registration:

Primary State Registration:

State Registration Number: 00/03124

Date of registration: 25 June 2002

Name of Registering Authority: Leningrad Oblast Registration Chamber

Information on Legal Entity Registration:

Primary State Registration Number of Legal Entity: 1024701893336

Date of Entry into the Unified State Register of Legal Entities (Registered Prior to 1 July 2002): 20 August 2002

Name of Registering Authority: Inspectorate of the Ministry of Taxes in the Tosnensky district of the Leningrad Oblast

Business Address and Correspondence Address: 5A Academica Chelomeya St., Moscow 117630, Russia
Call Centre: 8 800 200 1881

Foreign Calls: +7 (495) 710 9333

Fax: +7 495 710 9655

E-mail: info@fsk-ees.ru

Website: <http://fsk-ees.ru/eng/>

For Shareholders: 8 800 200 1881

Fax: +7 (495) 710 9641

Company Registrar:

A Company/An individual that keeps the Shareholders' Register:

Joint-Stock Company Registrar Society STATUS (JSC STATUS)

Address: building 1, 32 Novorogozhskaya St., Moscow 109544, Russia

Tel: +7 495 974 8350

Fax: +7 495 678 7110

E-mail: info@rostatus.ru

License Number: 10-000-1-00304

Issue Date: 12 March 2004

Expiry Date: Non-expiry

Issuing Authority: FFMS of Russia

Depository

Information on the depository where all the securities are kept:

Non-Banking Credit Organisation Closed Joint-Stock Company National Settlement Depository (CJSC NSD)

Address: building 12, Spartakovskaya St., 105066

Tel: +7 495 234 9960

E-mail: sales@nsd.ru

License Number: 177-12042-000100

Issue Date: 19 February 2009

Expiry Date: Non-expiry

Issuing Authority: FFMS of Russia

Appendices

The following Appendices are available on the official Company's website at http://www.fsk-ees.ru/eng/investors/company_reports/ or in the electronic version of the Annual Report of PJSC FGC UES for 2016:

Appendix 1. Additional Information on the Sections of the Annual Report

Appendix 2. Audit Commission's Report

Appendix 3. Report on Compliance with the Russian Corporate Governance Code and Report on Compliance with Main Principles of the UK Corporate Governance Code

Appendix 4. Information on Major Transactions and on Transactions by PJSC FGC UES in 2016, Classified Under the laws of the Russian Federation as Related Party Transactions Subject To Approval by the Company's Authorised Governing Bodies

Appendix 5. Information on Material Transactions made by PJSC FGC UES and Entities Controlled Thereby

Appendix 6. Information on the Actual Execution of Instructions of the President and the Government of the Russian Federation

Appendix 7. Information on the Participation of PJSC FGC UES in commercial and non-commercial organizations in 2016

Appendix 8. Information on the Debt Recovery Claims in which PJSC FGC UES Participates

Appendix 9. Information on Concluded Purchase Agreements of Shares, Stocks, Equity Interest of Business Partnerships and Business Entities, including Information on Parties, Subject, Price, and Other Terms of the Agreements

Appendix 10. Information About the Structure of the Property Portfolio of PJSC FGC UES

Appendix 11. Information on Land Plots of PJSC FGC UES

Appendix 12. Information on the Disposal of Non-Core Assets in 2016

Appendix 13. Annual Financial Statements of PJSC FGC UES for 2016 Under RAS

Appendix 14. Consolidated Financial Statements of PJSC FGC UES for 2016 Under IFRS