

PJSC MOESK

Report on review of consolidated interim condensed financial statements
(unaudited)

for the six-month period ended 30 June 2015

PJSC MOESK

Report on review of consolidated interim condensed financial statements

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REPORT ON REVIEW OF CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

To the Shareholders and the Board of Directors of Public Joint-Stock Company "Moscow United Electric Grid Company"

Audited entity:

Moscow United Electric Grid Company, Public Joint-Stock Company (abbreviated name - **PJSC MOESK**)

Location: 3, 2nd Paveletsky Passage, bldg. 2, Moscow 115114, Russian Federation;
Primary state registration number – 1057746555811.

Auditor:

RSM RUS Ltd.

Location: 4, Pudovkin Str., Moscow, 119285;
Tel.: (495) 363-2848; Fax: (495) 981-4121;
Primary state registration number – 1027700257540;

RSM RUS Ltd. is a member of self-regulatory organization Non-Profit Partnership «Auditor Association «Sodruzhestvo» (Membership Certificate # 6938, ORNZ 11306030308 (number in the register of auditing organizations), location: 21, Michurinsky avenue, bldg. 4, Moscow, 119192.

Introduction

Following tender evaluation report (Minutes No. 5/552p dated 20 April 2015), Decision of the annual general meeting of shareholders of PJSC MOESK dated 24 June 2015 (Minutes No. 17 dated 29 Jun. 2015) on appointment of RSM RUS Ltd. as the Company's auditor and Contract for the audit of the 2015 financial statements of PJSC MOESK No. 15a074/2002-15-28369, we have reviewed the accompanying consolidated interim condensed financial statements of MOESK, Public Joint Stock Company and its subsidiaries (the "Group"). These financial statements comprise consolidated interim condensed statement of financial position as at 30 June 2015 and consolidated interim condensed statements of comprehensive income, cash flows and changes in equity for the six months then ended, and the main accounting policies and other explanatory notes.

Management of MOESK, Public Joint Stock Company is responsible for the preparation and fair presentation of these consolidated interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with:

- RF Federal Law "On Auditing" No. 307-FZ of 30 Dec. 2008;
- Federal Auditing Rules (Standards), including Rule (Standard) No. 33 "Review of Financial Statements";
- International Standards on Auditing, including International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

A review of consolidated interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2015, and its financial performance and its cash flows for the six months then ended in accordance with International Accounting Standard 34, "Interim Financial Reporting".

Management Board Chairwoman

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 – 29605011647

N.A. Dantser



PJSC MOESK

Consolidated interim condensed statement of profit or loss and other comprehensive income for the six months ended 30 June 2015

'000 RUB		6 months ended 30 June 2015 (unaudited)	6 months ended 30 June 2014 (unaudited)
	Note		
Revenue	7	61 526 776	60 273 466
Operating expenses, net	8	(53 179 482)	(54 372 998)
Other operating income		1 028 184	1 316 185
Results from operating activities		9 375 478	7 216 653
Finance income		632 365	216 394
Finance costs		(2 570 473)	(1 625 998)
Profit before income tax		7 437 370	5 807 049
Income tax expense		(1 853 448)	(1 492 910)
Profit for the period		5 583 922	4 314 139
Items not to be reclassified to profit and loss in subsequent periods			
Remeasurements of defined benefit liability		(102 892)	118 381
Income tax on defined benefit liability		20 578	(23 676)
Other comprehensive income for the period, net of tax		(82 314)	94 705
Total comprehensive income for the period		5 501 608	4 408 844
Profit attributable to:			
Owners of the Company		5 598 493	4 253 552
Non-controlling interest		(14 571)	60 587
		5 583 922	4 314 139
Total comprehensive income attributable to:			
Owners of the Company		5 516 179	4 348 257
Non-controlling interest		(14 571)	60 587
Basic and diluted earnings per ordinary share (in Russian Roubles)		0.1149	0.0873

The consolidated interim condensed financial statements were approved on 24 August 2015.

General Director

P.A. Sinytin



Acting First Deputy General Director
for Finance and Economic Activity
and Corporate management

V.V. Bragova

The consolidated interim condensed statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 19 and with the consolidated financial statements for the year ended 31 December 2014.

PJSC MOESK
Consolidated interim condensed statement of financial position
as at 30 June 2015

'000 RUB	Note	30 June 2015 (unaudited)	31 December 2014
Assets			
Non-current assets			
Property, plant and equipment	9	277 516 496	273 668 067
Intangible assets		1 536 874	1 290 221
Other non-current assets		4 419 804	5 067 246
Total non-current assets		283 473 174	280 025 534
Current assets			
Inventories		2 550 554	2 294 574
Income tax receivable		320 609	–
Trade and other receivables		23 547 963	23 407 990
Current investments		–	550 000
Cash and cash equivalents		7 294 849	4 305 289
Total current assets		33 713 975	30 557 853
Total assets		317 187 149	310 583 387
Equity and liabilities			
Equity			
Share capital	10	24 353 546	24 353 546
Additional paid in capital		18 580 888	18 580 888
Retained earnings		119 119 990	115 659 250
Total equity attributable to the shareholders of PJSC MOESK		162 054 424	158 593 684
Non-controlling interest		417 414	431 985
Total equity		162 471 838	159 025 669
Non-current liabilities			
Loans and borrowings	12	54 685 926	52 729 724
Employee benefits		3 525 554	3 389 496
Deferred tax liabilities		10 296 512	9 701 911
Trade and other payables		8 719 268	9 343 529
Total non-current liabilities		77 227 260	75 164 660
Current liabilities			
Loans and borrowings	12	23 524 872	21 554 011
Income tax payable		–	883 845
Other taxes payable		1 755 013	599 607
Trade and other payables		51 772 701	52 800 050
Provisions	13	435 465	555 545
Total current liabilities		77 488 051	76 393 058
Total equity and liabilities		317 187 149	310 583 387

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 19 and with the consolidated financial statements for the year ended 31 December 2014.

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Consolidated interim condensed statement of changes in equity
for the six months ended 30 June 2015

	Attributable to equity holders of the Company				Non-controlling interest	Total equity
	Share capital (Note 10 (a))	Additional paid in capital	Retained earnings	Total		
Balance at 1 January 2015	24 353 546	18 580 888	115 659 250	158 593 684	431 985	159 025 669
Profit for the period	–	–	5 598 493	5 598 493	(14 571)	5 583 922
Other comprehensive income	–	–	(82 314)	(82 314)	–	(82 314)
Total comprehensive income for the period	24 353 546	18 580 888	121 175 429	164 109 863	417 414	164 527 277
Dividends to shareholders (Note 10 (c)) (unaudited)	–	–	(2 055 439)	(2 055 439)	–	(2 055 439)
Balance at 30 June 2015	24 353 546	18 580 888	119 119 990	162 054 424	417 414	162 471 838
Balance at 1 January 2014	24 353 546	18 580 888	110 274 829	153 209 263	368 399	153 577 662
Profit for the period	–	–	4 253 552	4 253 552	60 587	4 314 139
Other comprehensive income	–	–	94 705	94 705	–	94 705
Total comprehensive income for the period	24 353 546	18 580 888	114 623 086	157 557 520	428 986	157 986 506
Dividends to shareholders (Note 10 (c)) (unaudited)	–	–	(2 910 249)	(2 910 249)	–	(2 910 249)
Balance at 30 June 2014	24 353 546	18 580 888	111 712 837	154 647 271	428 986	155 076 257

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 19 and with the consolidated financial statements for the year ended 31 December 2014.

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Consolidated interim condensed statement of cash flows
for the six months ended 30 June 2015

'000 RUB	6 months ended 30 June 2015 (unaudited)	6 months ended 30 June 2014 (unaudited)
Cash flows from operating activities		
Profit for the period	5 583 922	4 314 139
<i>Adjustments for:</i>		
Depreciation and amortization	10 447 774	10 074 400
Loss on disposal of property, plant and equipment	68 244	119 266
Provisions for legal claims charge	181 343	286 521
Finance income	(632 365)	(216 394)
Finance costs	2 566 345	1 625 998
Allowance for impairment of accounts receivable	489 344	804 812
Provision for inventory obsolescence	(1 040)	(6 749)
Loss on disposal of inventory	71 956	1 949
Income tax expense	1 853 448	1 492 910
Property received free of cash	(861 215)	(1 072 267)
Other non-cash items	(37 194)	(20 827)
Operating profit before changes in working capital	19 730 562	17 403 758
Change in inventories	(290 515)	(277 965)
Change in trade and other receivables	(37 041)	2 236 665
Change in retirement benefit obligations and related assets	(136 635)	(587 589)
Change in trade and other payables	(1 116 414)	1 592 342
Change in taxes payable, other than income tax	1 155 406	983 769
Cash flows from operations before income taxes	19 305 363	21 350 980
Income taxes paid	(2 442 722)	(1 983 854)
Interest paid	(3 293 954)	(2 318 275)
Net cash from operating activities	13 568 687	17 048 851
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	733	181 738
Acquisition of property, plant and equipment	(15 412 494)	(15 414 298)
Interest received	618 301	204 356
Acquisition of intangible assets	(308 725)	(189 818)
Proceeds from loans issued	550 000	-
Net cash used in investing activities	(14 552 185)	(15 218 022)
Cash flows from financing activities		
Proceeds from borrowings	10 373 532	7 121 500
Repayment of borrowings	(6 392 844)	(6 103 891)
Payment of finance lease liabilities	(7 630)	(6)
Net cash from financing activities	3 973 058	1 017 603
Net increase in cash and cash equivalents	2 989 560	2 848 432
Cash and cash equivalents at beginning of period	4 305 289	1 596 266
Cash and cash equivalents at end of period	7 294 849	4 444 698

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 19 and with the consolidated financial statements for the year ended 31 December 2014.

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Notes to the consolidated interim condensed financial statements (continued)

1 Background

(a) Organisation and operations

Public Joint-Stock Company "Moscow United Electric Grid Company" (PJSC MOESK, or the "Company") was established on 1 April 2005 by transfer of assets and activities related to the electricity transmission of OJSC Mosenergo, a subsidiary of RAO UES of Russia, within the framework of Russian electricity sector restructuring in accordance with Resolution No. 1 adopted by shareholders of OJSC Mosenergo on 29 June 2004.

The new brand title of the company's organizational and legal form was approved At the Annual General Shareholders' Meeting held on 24 June 2015. Open Joint Stock Company Moscow United Electric Grid Company was changed to Public Open Joint Stock Company Moscow United Electric Grid Company.

The Group's consolidated interim condensed financial statements include the following subsidiaries:

- ▶ OJSC Moskabel'set'montaj (MKSM);
- ▶ OJSC Moskabel'energoremont (MKER);
- ▶ OJSC Repair of Electrical and Technical Equipment Plant (RETEP);
- ▶ OJSC Energocentr.

As at 30 June 2015, the Government of the Russian Federation owned 85.31% shares of PJSC Rosseti (formerly OJSC "IDGC Holding") (at 31 December 2014 – 85.31%), which in turn owned 50.9% of the Company.

The Company's registered office and the actual address is at building 3/2, 2nd Paveletskiy proezd, Moscow, 115114, the Russian Federation.

The Group's principal activity is electricity transmission by means of electrical networks located in Moscow and the Moscow Region. The Group also provides connection services as part of its core operations.

(b) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated interim condensed financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

For the six months ended 30 June 2015 and in 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. In December 2014, the Rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%. As on 30 June 2015 the key rate was 11.5%. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of

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Notes to the consolidated interim condensed financial statements (continued)

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

2 Basis of preparation

(a) Statement of compliance

These consolidated interim condensed financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") IAS 34 *Interim Financial Reporting*. It does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2014.

(b) Basis of measurement

The consolidated interim condensed financial statements are prepared on the historical cost basis except that investments classified as available-for-sale are stated at fair value.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Group companies functional currency and the currency in which these consolidated interim condensed financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand.

(d) Use of judgements, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated interim condensed financial statements in conformity with IFRS. Actual results may differ from those estimates.

The judgements, estimates and assumptions applied by the Group in these consolidated interim condensed financial statements are substantially the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2014.

3 Significant accounting policies

Except as described below, the accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2014.

Changes in accounting policies

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June 2015, and have not been applied in preparing these consolidated interim financial statements. The Group has not yet analysed the likely impact of the new standards on its financial position or performance. The Group plans to adopt the following pronouncements when they become effective:

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Notes to the consolidated interim condensed financial statements (continued)

- IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
- Amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*, entitled "Clarification of Acceptable Methods of Depreciation and Amortization". Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. These amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- IFRS 9 *Financial Instruments* was issued in phases and ultimately replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment IFRS 9 replaces the 'incurred loss' model used in IAS 39, with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses. The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The Group is currently assessing the impact of the standard on the consolidated financial statements. The Group does not intend to adopt this standard early.
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* entitled *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. These narrow scope amendments clarify, that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not), and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- Amendment to IFRS 11 *Joint Arrangements*, entitled *Accounting for Acquisitions of Interests in Joint Operations*. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and requires the application of IFRS 3 *Business Combinations*, for such acquisitions. The amendment is effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

In 2015 the Group applied several other new standards and amendments for the first time. However, they do not significantly impact the consolidated financial statements:

- *Defined Benefit Plans: Employee Contributions* – Amendments to IAS 19 *Employee Benefits*. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- Various improvements to IFRSs which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 January 2015.

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Notes to the consolidated interim condensed financial statements (continued)

4 Determination of fair values

The fair value of non-derivative financial instruments is estimated for disclosure purposes as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

5 Financial risk management

During the period the Company had the same exposure to financial risks as those which existed as at, and during, the year ended 31 December 2014.

6 Operating segments

Operating segments are identified on the basis of internal reports on components of the Group that are regularly reviewed by the Board of Directors, the chief operating decision maker, to allocate resources to a segment and assess its performance.

Management has determined the following as reportable segments:

- ▶ Electricity transmission in Moscow;
- ▶ Electricity transmission in the Moscow region;
- ▶ Connection services in Moscow;
- ▶ Connection services in the Moscow region.

Other activities mainly represent rental income, installation services, repair and technical maintenance of electrical equipment, which have been included in the "other". None of these items meets any of the quantitative thresholds for determining reportable segments in the six months ended 30 June 2015 or the six months ended 30 June 2014.

The segment revenue and profit/(loss) before income tax for the six months ended 30 June 2015 are as follows (unaudited):

'000 RUB	Electricity transmission	Connection services	Other	Total
Revenues				
External revenues	55 944 011	4 117 854	693 888	60 755 753
Moscow	27 807 722	2 451 829	473 989	30 733 540
Moscow Region	28 136 289	1 666 025	219 899	30 022 213
Inter-segment revenue	–	241 946	632 398	874 344
Moscow	–	–	485 199	485 199
Moscow Region	–	241 946	147 199	389 145
Reportable segment profit/(loss) before income tax				
Moscow	3 527 994	3 672 815	158 829	7 359 638
Moscow	2 676 883	2 254 159	94 787	5 025 829
Moscow Region	851 111	1 418 656	64 042	2 333 809

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Notes to the consolidated interim condensed financial statements (continued)

The segment revenue and profit/(loss) before income tax for the six months ended 30 June 2014 are as follows (unaudited):

'000 RUB (as previously reported)	Electricity transmission	Connection services	Other	Total
Revenues				
External revenues	55 830 999	3 134 637	293 514	59 259 150
Moscow	28 067 844	1 773 783	269 515	30 111 142
Moscow Region	27 763 155	1 360 854	23 999	29 148 008
Inter-segment revenue	–	–	718 438	718 438
Moscow	–	–	473 962	473 962
Moscow Region	–	–	244 476	244 476
Reportable segment profit/(loss) before income tax				
	3 909 687	2 497 206	38 871	6 445 764
Moscow	3 022 966	1 570 130	57 353	4 650 449
Moscow Region	886 721	927 076	(18 482)	1 795 315

Segment assets are presented in the table below:

'000 RUB	Electricity transmission	Connection services	Other	Unallocated	Total
30 June 2015 (unaudited)					
Total assets	297 044 873	6 358 192	4 124 310	33 242 450	340 769 825
Moscow	194 223 934	5 777 379	3 217 212	–	203 218 525
Moscow Region	102 820 939	580 813	907 098	–	104 308 850
Unallocated	–	–	–	32 242 450	33 242 450
31 December 2014					
Total assets	294 399 500	14 583 548	4 029 388	24 745 187	337 757 623
Moscow	192 667 464	12 442 743	3 046 131	–	208 156 338
Moscow Region	101 732 036	2 140 805	983 257	–	104 856 098
Unallocated	–	–	–	24 745 187	24 745 187

Segment liabilities are presented in the table below:

'000 RUB	Electricity transmission	Connection services	Other	Unallocated	Total
30 June 2015 (unaudited)					
Total liabilities	88 442 366	43 607 467	1 194 228	17 415 445	150 659 507
Moscow	85 397 841	28 619 299	758 226	–	114 775 366
Moscow Region	3 044 525	14 988 168	436 002	–	18 468 696
Unallocated	–	–	–	17 415 445	17 415 445
31 December 2014					
Total liabilities	89 590 892	44 494 723	1 164 389	13 330 952	148 580 956
Moscow	84 114 962	28 620 543	624 819	–	113 360 324
Moscow Region	5 475 930	15 874 180	539 570	–	21 889 680
Unallocated	–	–	–	13 330 952	13 330 952

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Notes to the consolidated interim condensed financial statements (continued)

6 Operating segments (continued)

Reconciliation of reportable segment profit:

'000 RUB	6 months ended 30 June 2015 (unaudited)	6 months ended 30 June 2014 (unaudited)
Reportable segment profit	7 200 809	6 406 893
Other profit or loss	158 829	38 871
Unallocated	(2 710 220)	(2 112 714)
Total profit before income tax per Russian Accounting Standards	4 649 418	4 333 050
Expenses associated with leased property, plant and equipment	107 145	104 622
Borrowing costs capitalized	(2 271)	117 957
Depreciation and amortisation	1 900 795	1 010 896
Gain on disposal of property, plant and equipment	28 487	56 315
Reversal of expenses on connection services	–	11 153
Release of allowance for impairment of accounts receivable	462 992	313 599
Provision for legal claims	(39 979)	(19 967)
Provision for unused vacations and bonuses	–	(616 825)
Effect of loan discounting	(39 584)	(19 815)
Employee benefits obligation	(33 166)	435 002
Other items	403 533	81 062
Consolidated profit before income tax per IFRS	7 437 370	5 807 049

The segment disclosure was prepared in accordance with 2014 year segment disclosure. However, for the purpose of preparation Consolidated interim condensed financial statements the Group does not present reconciliation totals of segment assets and segment liabilities as required by para 21 (c) IFRS 8 *Operating segments*.

Segment operating results that are reported to the Group's chief operating decision maker are determined based on the income and expenses calculated in accordance with Russian Accounting Standards. Segment operating results represent the profit earned by each segment without allocation of finance income and expenses, other income and expenses which are included in "unallocated" component.

Major customer

In six months ended 30 June 2015, revenue from one customer of the Group's electricity transmission segment represented approximately 90% (RUB 55 944 011 thousand) of the Group's total revenue (six months ended 30 June 2014: 82%; RUB 49 152 500 thousand).

7 Revenue

During the six months ended 30 June 2015 revenue amounted to RUB 61 526 776 thousand (six months ended 30 June 2014: RUB 60 273 466 thousand) and included revenue from electricity transmission services in the amount of RUB 55 944 011 thousand (six months ended 30 June 2014: RUB 55 830 999 thousand) and revenue from technological connection services in the amount of RUB 4 117 854 thousand (six months ended 30 June 2014: RUB 4 059 694 thousand).

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Notes to the consolidated interim condensed financial statements (continued)

8 Operating expenses, net

During the six months ended 30 June 2015 operating expenses, net amounted to RUB 53 179 482 thousand (six months ended 30 June 2014: RUB 54 372 998 thousand) and mainly included expenses relating to electricity transmission in the amount of RUB 21 287 299 thousand (six months ended 30 June 2014: RUB 22 533 788 thousand), purchased electricity for compensation of technological losses in the amount of RUB 5 142 520 thousand (six months ended 30 June 2014: RUB 5 382 985 thousand), employee benefits in the amount of RUB 8 965 785 thousand (six months ended 30 June 2014: RUB 9 131 822 thousand) and depreciation and amortisation expense in the amount of RUB 10 447 774 thousand (six months ended 30 June 2014: RUB 10 074 400 thousand).

9 Property, plant and equipment

'000 RUB	Transformers and					Construction in progress	Total
	Land and buildings	Transmission networks	transformer substations	Other			
Cost							
Balance at 1 January 2014	34 315 946	154 265 196	56 401 031	68 974 491	35 134 014	349 090 678	
Additions (unaudited)	2 332	–	–	14 226	16 428 068	16 444 626	
Transfers (unaudited)	86 740	4 999 868	1 655 137	575 110	(7 316 855)	–	
Disposals (unaudited)	(3 946)	(135 443)	(15 035)	(55 842)	(2 615)	(212 881)	
Balance at 30 June 2014 (unaudited)	34 401 072	159 129 621	58 041 133	69 507 985	44 242 612	365 322 423	
Depreciation							
Balance at 1 January 2014	(6 522 874)	(38 395 910)	(15 418 383)	(34 598 455)	(920 969)	(95 856 591)	
Depreciation charge (unaudited)	(552 638)	(4 003 524)	(2 003 895)	(3 453 520)	–	(10 013 577)	
Disposals (unaudited)	609	34 406	4 755	52 590	–	92 360	
Balance at 30 June 2014 (unaudited)	(7 074 903)	(42 365 028)	(17 417 523)	(37 999 385)	(920 969)	(105 777 808)	
Net book value							
At 1 January 2014	27 793 072	115 869 286	40 982 648	34 376 036	34 213 045	253 234 087	
At 30 June 2014 (unaudited)	27 326 169	116 764 593	40 623 610	31 508 600	43 321 643	259 544 615	
Cost							
Balance at 1 January 2015	36 094 150	179 672 836	68 510 438	76 987 992	33 136 291	394 401 707	
Additions (unaudited)	2 736	508 428	128 184	140 915	13 539 528	14 319 791	
Transfers (unaudited)	447 484	5 696 601	4 156 138	(704 942)	(9 595 281)	–	
Disposals (unaudited)	(25 091)	(90 417)	(12 235)	(75 392)	(67 568)	(270 703)	
Balance at 30 June 2015 (unaudited)	36 519 279	185 787 448	72 782 525	76 348 573	37 012 970	408 450 795	
Depreciation							
Balance at 1 January 2015	(8 073 463)	(50 117 652)	(22 035 300)	(39 717 982)	(789 243)	(120 733 640)	
Depreciation charge (unaudited)	(570 921)	(4 093 786)	(2 594 250)	(3 126 747)	–	(10 385 704)	
Disposals (unaudited)	1 349	28 739	559	72 260	82 138	185 045	
Balance at 30 June 2015 (unaudited)	(8 643 035)	(54 182 699)	(24 628 991)	(42 772 469)	(707 105)	(130 934 299)	
Net book value							
At 1 January 2015	28 020 687	129 555 185	46 475 138	37 270 010	32 347 047	273 668 067	
At 30 June 2015 (unaudited)	27 876 244	131 604 749	48 153 534	33 576 104	36 305 865	277 516 496	

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Notes to the consolidated interim condensed financial statements (continued)

9 Property, plant and equipment (continued)

Capitalised interest

Borrowing costs totalling RUB 1 072 604 thousand as at 30 June 2015 with a capitalisation rate of 9.72% (30 June 2014: RUB 870 447 thousand with a capitalisation rate of 8.18%) were included in the cost of property, plant and equipment and represent interest on loans.

10 Equity

(a) Share capital

Share capital	Ordinary shares 30 June 2015	Ordinary shares 31 December 2014
Issued shares, fully paid	48 707 091 574	48 707 091 574
Par value (in RUB)	RUB 0.50	RUB 0.50

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

(b) Treasury shares

As at 30 June 2015 and 31 December 2014 the Group did not hold any of its own shares.

(c) Dividends

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

At the annual shareholders meeting held on 29 June 2015 the decision was made to declare dividends for the year 2014 for ordinary shares in the amount of RUB 2 055 439 thousand (RUB 0.0422 per share).

At the annual shareholders meeting held on 24 June 2014 the decision was made to declare dividends for the year 2013 for ordinary shares in the amount of RUB 2 910 249 thousand (RUB 0.05975 per share).

11 Earnings per share

The calculation of earnings per share is based upon the profit for the period and the average number of ordinary shares outstanding during the period, calculated as shown below. The Company has no dilutive equity instruments.

	30 June 2015	30 June 2014
Number of outstanding shares	48 707 091 574	48 707 091 574
Profit for the period attributable to the shareholders of PJSC MOESK ('000 RUB)	5 598 493	4 253 552
Earnings per share (RUB)	0.1149	0.0873

PJSC MOESK

Notes to the consolidated interim condensed financial statements (continued)

12 Loans and borrowings

This note provides information about the Group's loans and borrowings.

'000 RUB	30 June 2015	31 December 2014
Non-current		
Unsecured bank facility	42 121 317	42 121 317
Unsecured bond issues	12 428 688	10 468 870
Finance lease liabilities	135 921	139 537
Total non-current	54 685 926	52 729 724
Current		
Current portion of unsecured bond issues	15 753 920	10 769 081
Unsecured bank facility	7 700 000	3 000 000
Current portion of unsecured bank facility	60 220	7 774 313
Current portion of finance lease liabilities	10 732	10 617
Total current	23 524 872	21 554 011

The Group raised the following bank loans during the six months ended 30 June 2015:

Amount	Interest rate	Maturity
6 980 689*	13.20%	02.05.2018
3 392 844	11.72% (MosPrime(ON)+0.75/+1)	15.07.2015

The Group repaid the following significant bank facilities during the six months ended 30 June 2015:

	Amount
Loan	3 392 844
Loan	215 725

* Loan from state-controlled bank.

PJSC MOESK

Notes to the consolidated interim condensed financial statements (continued)

12 Loans and borrowings (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans and bonds were as follows:

	Currency	30 June 2015		31 December 2014		Year of maturity	30 June 2015		31 December 2014	
		Nominal interest rate	Nominal interest rate	Nominal interest rate	Nominal interest rate		Face value	Carrying amount	Face value	Carrying amount
'000 RUB										
Unsecured bonds	RUB	—	—	—	—	2024	866 635	563 788	1 082 360	740 017
Unsecured bank facility*	RUB	8.00%	8.00%	8.00%	8.00%	2018	10 010 960	10 010 960	10 013 151	10 013 151
Unsecured bank facility*	RUB	8.00%	8.00%	8.00%	8.00%	2018	8 530 655	8 530 655	8 532 523	8 532 523
Unsecured bank facility*	RUB	8.00%	8.00%	8.00%	8.00%	2015	—	—	1 001 404	1 001 404
Unsecured bank facility*	RUB	8.00%	8.00%	8.00%	8.00%	2015	—	—	1 001 404	1 001 404
Unsecured bank facility*	RUB	8.00%	8.00%	8.00%	8.00%	2015	—	—	1 001 404	1 001 404
Unsecured bank facility*	RUB	9.16%	9.16%	9.16%	9.16%	2017	4 105 145	4 105 145	4 106 174	4 106 174
Unsecured bank facility*	RUB	7.72%	7.72%	7.72%	7.72%	2015	3 002 643	3 002 643	3 002 539	3 002 539
Unsecured bank facility*	RUB	7.72%	7.72%	7.72%	7.72%	2015	3 202 820	3 202 820	3 202 708	3 202 708
Unsecured bank facility*	RUB	7.72%	7.72%	7.72%	7.72%	2015	1 501 322	1 501 322	1 501 269	1 501 269
Unsecured bank facility*	RUB	7.46%	7.46%	7.46%	7.46%	2016	2 502 149	2 502 149	2 502 044	2 502 044
Unsecured bank facility*	RUB	11.50%	11.50%	11.50%	11.50%	2019	2 002 213	2 002 213	2 002 655	2 002 655
Unsecured bank facility*	RUB	11.50%	11.50%	11.50%	11.50%	2017	8 012 603	8 012 603	8 015 123	8 015 123
Unsecured bank facility	RUB	11.50%	11.50%	11.50%	11.50%	2017	5 007 877	5 007 877	5 009 452	5 009 452
Unsecured bank facility	RUB	11.50%	11.50%	11.50%	11.50%	2017	2 003 151	2 003 151	2 003 780	2 003 780
Unsecured bonds	RUB	8.80%	8.80%	8.80%	8.80%	2015	5 122 961	5 122 118	5 124 166	5 121 407
Unsecured bonds	RUB	8.80%	8.80%	8.80%	8.80%	2015	5 077 151	5 075 917	5 078 357	5 075 157
Unsecured bonds	RUB	8.50%	8.50%	8.50%	8.50%	2016	5 161 836	5 160 391	5 163 000	5 160 389
Unsecured bonds	RUB	11.50%	11.50%	11.50%	11.50%	2024	5 144 659	5 140 416	5 146 166	5 140 981
Unsecured bonds	RUB	13.20%	—	—	—	2018	7 139 235	7 119 977	—	—
Finance lease liabilities	RUB	—	—	—	—	—	—	146 653	—	150 154
							78 394 015	78 210 798	74 489 679	74 283 735

*Loans from state controlled entity

Notes to the consolidated interim condensed financial statements (continued)

13 Provisions

'000 RUB	<u>Legal claims</u>
Balance at 1 January 2014	447 214
Provisions accrued during the year	305 834
Provisions reversed during the year	(103 536)
Provisions used during the year	(93 967)
Balance at 31 December 2014	555 545
Provisions accrued during the period	182 065
Provisions reversed during the period	(705)
Provisions used during the period	(301 440)
Balance at 30 June 2015	435 465

Provision for legal claims relates to the claims brought against the Group within the ordinary course of business. Management believes, after taking appropriate legal advice, that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

14 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2014. Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximates their carrying amount. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the six-months ended 30 June 2015.

15 Capital commitments

Future capital expenditures for which contracts relate to capital construction of power grid facilities have been signed as at 30 June 2015 amount to RUB 25 171 945 thousand (31 December 2014: RUB 30 700 909 thousand).

16 Contingencies**(a) Insurance**

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

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

Notes to the consolidated interim condensed financial statements (continued)

16 Contingencies (continued)

(c) Taxation contingencies

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

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

(d) Environmental matters

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

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

17 Related party transactions

PJSC MOESK operates in an economic regime dominated by entities directly or indirectly controlled by the Russian Federation through its government-related entities. PJSC MOESK has transactions with other government-related entities including but not limited to sales and purchases of goods and ancillary materials, rendering and receiving services, leasing of assets, and use of public utilities.

These transactions are conducted in the ordinary course of PJSC MOESK's business on terms comparable to those with other entities that are not government-related. PJSC MOESK has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

(a) Control relationships

As at 30 June 2015 the Parent of the Group was PJSC Rosseti, a state controlled entity. The party with ultimate control over the Group is the Russian Federation, which held the majority of the voting rights of PJSC Rosseti.

Notes to the consolidated interim condensed financial statements (continued)

17 Related party transactions (continued)

(b) Transactions with management and close family members

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

(i) Management remuneration

Total remuneration in the form of salary and bonuses to the key management and the members of the Board of Directors during the six months ended 30 June 2015 was RUB 244 101 thousand (six months ended 30 June 2014: RUB 525 842 thousand).

(c) Transactions with state-controlled entities

In the course of its operating activities the Group is engaged in significant transactions with state-controlled entities. Revenues and purchases from state-controlled entities are measured at regulated tariffs, where applicable; in other cases revenues and purchases are measured at normal market prices.

Revenues from state-controlled entities for the six months ended 30 June 2015 constitute 82% (six months ended 30 June 2014: 84%) of total Group revenues, including 90% (six months ended 30 June 2014: 91%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the six months ended 30 June 2015 constitute 82% (the six months ended 30 June 2014: 79%) of total transmission costs.

The most significant loans from state-controlled entities are disclosed in Note 12.

(d) Pricing policies

Revenue from related parties for electricity transmission is based on the tariffs determined by the governmental bodies. Other related party transactions are based on normal market prices.

18 Events subsequent to the reporting date

In July 2015 PJSC MOESK received for revolving credit line with PJSC "Sberbank" amount RUB 4 266 611 thousand at the annual interest rate of 12%.

On 20 July 2015, the Company made a dividend payment to shareholders for the year 2014 for ordinary shares in the amount of RUB 2 055 439 thousand.