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PJSC MOESK

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

for the six-month period ended 30 June 2016

PJSC MOESK

Report on review of consolidated interim condensed financial statements

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24.08.2016г. / ПрМ-2955

REPORT ON REVIEW OF CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

To the Shareholders and the Board of Directors of "Moscow United Electric Grid Company", Public Joint Stock 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;
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 20.04.2015), Decision of the annual general meeting of shareholders of PJSC MOESK dated 06.06.2016 (Minutes No. 18 dated 09.06.2016) on appointment of RSM RUS Ltd. as the PJSC MOESK auditor and Contract for the audit of the 2016 financial statements of PJSC MOESK No. 200002-16-33172/161a089, we have reviewed the accompanying consolidated interim condensed financial statements of PJSC MOESK and its subsidiaries. These consolidated interim condensed financial statements comprise consolidated interim condensed statement of financial position as at 30 June 2016 and consolidated interim condensed statement of profit or loss and other 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 PJSC MOESK 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 Federal Auditing Standards effective in the Russian Federation 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 PJSC MOESK and its subsidiaries as at 30 June 2016, 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 2016

'000 RUB	Note	6 months ended 30 June 2016 (unaudited)	6 months ended 30 June 2015 (unaudited)
Revenue	7	67 218 401	61 526 776
Operating expenses, net	8	(62 478 827)	(53 179 482)
Other operating income		930 294	1 028 184
Results from operating activities		5 669 868	9 375 478
Finance income		137 352	632 365
Finance costs		(3 081 261)	(2 570 473)
Profit before Income tax		2 725 959	7 437 370
Income tax expense		(856 978)	(1 853 448)
Profit for the period		1 868 981	5 583 922
Items not to be reclassified to profit and loss in subsequent periods			
Remeasurements of defined benefit liability		(462 261)	(102 892)
Income tax on defined benefit liability		92 452	20 578
Other comprehensive income, net of tax		(369 809)	(82 314)
Total comprehensive income for the period		1 499 172	5 501 608
Profit for the period attributable to:			
Shareholders of PJSC MOESK		1 868 981	5 598 493
Non-controlling interest		-	(14 571)
		1 868 981	5 583 922
Total comprehensive income attributable to:			
Shareholders of PJSC MOESK		1 499 172	5 516 179
Non-controlling interest		-	(14 571)
Basic and diluted earnings per ordinary share (in Russian Roubles)		0.0384	0.1149

These consolidated interim condensed financial statements were approved on 24 August 2016.

General Director

P.A. Sinyutin



First Deputy General Director
for Finance and Economic Activity
and Corporate Management

A.V. Inozemtsev

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 an integral part of, these consolidated interim condensed financial statements set out on pages 7 to 19 and with the consolidated financial statements for the year ended 31 December 2015.

PJSC MOESK
Consolidated interim condensed statement of financial position
as at 30 June 2016

'000 RUB	Note	30 June 2016 (unaudited)	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	9	290 987 369	289 911 674
Intangible assets		2 280 269	2 057 681
Other non-current assets		4 567 997	4 499 597
Total non-current assets		297 835 635	296 468 952
Current assets			
Inventories		3 208 626	2 650 183
Income tax receivable		606 712	201 191
Trade and other receivables		22 144 639	25 896 936
Cash and cash equivalents		171 978	400 645
Total current assets		26 131 955	29 148 955
Total assets		323 967 590	325 617 907
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		121 480 133	126 298 271
Total equity		164 414 567	169 232 705
Non-current liabilities			
Loans and borrowings	12	65 082 913	65 873 623
Employee benefits		4 254 909	3 722 930
Deferred tax liabilities		15 315 690	15 532 079
Trade and other payables		10 228 487	9 464 365
Total non-current liabilities		94 881 999	94 592 997
Current liabilities			
Loans and borrowings	12	13 186 853	8 147 510
Income tax payable		-	7 558
Other taxes payable		2 155 760	1 695 015
Trade and other payables		48 906 617	51 645 855
Provisions	13	421 794	296 267
Total current liabilities		64 671 024	61 792 205
Total equity and liabilities		323 967 590	325 617 907

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming an integral part of, these consolidated interim condensed financial statements set out on pages 7 to 19 and with the consolidated financial statements for the year ended 31 December 2015.

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Consolidated interim condensed statement of changes in equity
for the six months ended 30 June 2016

	Equity attributable to equity holders of the Company					Non-controlling interest	Total equity
	Share capital (Note 10 (a))	Additional paid in capital	Retained earnings	Total	Total		
'000 RUB							
Balance at 1 January 2016	24 353 546	18 580 888	126 298 271	169 232 705	–	169 232 705	
Profit for the period	–	–	1 868 981	1 868 981	–	1 868 981	
Other comprehensive income	–	–	(369 809)	(369 809)	–	(369 809)	
Total comprehensive income for the period	24 353 546	18 580 888	127 797 443	170 731 877	–	170 731 877	
Dividends to shareholders (Note 10 (c)) (unaudited)	–	–	(6 317 310)	(6 317 310)	–	(6 317 310)	
Balance at 30 June 2016	24 353 546	18 580 888	121 480 133	164 414 567	–	164 414 567	
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	

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming an integral part of, these consolidated interim condensed financial statements set out on pages 7 to 19 and with the consolidated financial statements for the year ended 31 December 2015.

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Consolidated interim condensed statement of cash flows
for the six months ended 30 June 2016

'000 RUB	6 months ended 30 June 2016 (unaudited)	6 months ended 30 June 2015 (unaudited)
Cash flows from operating activities		
Profit for the period	1 868 981	5 583 922
<i>Adjustments for:</i>		
Depreciation and amortization	10 509 027	10 447 774
Loss on disposal of property, plant and equipment	97 965	68 244
Provisions for legal claims charge	426 418	181 343
Finance income	(137 352)	(632 365)
Finance costs	3 081 261	2 566 345
Allowance for impairment of trade and other receivables	937 994	489 344
Provision for inventory obsolescence	(2 959)	(1 040)
Loss on disposal of inventory	4 832	71 956
Income tax expense	856 978	1 853 448
Property received free of charge	(976 762)	(861 215)
Other non-cash items	(33 089)	(37 194)
Cash flows from operating activities before changes in working capital	16 633 294	19 730 562
Change in inventories	(560 316)	(290 515)
Change in trade and other receivables	2 709 233	(37 041)
Change in retirement benefit obligations and related assets	(47 078)	(136 635)
Change in trade and other payables	(2 742 794)	(1 116 414)
Change in taxes payable, other than income tax	460 745	1 155 406
Cash flows from operating activities before income taxes	16 453 084	19 305 363
Income taxes paid	(1 393 993)	(2 442 722)
Interest paid	(3 980 527)	(3 293 954)
Net cash from operating activities	11 078 564	13 568 687
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	2 075	733
Acquisition of property, plant and equipment	(15 221 415)	(15 412 494)
Interest received	123 157	618 301
Acquisition of intangible assets	(306 626)	(308 725)
Proceeds from loans issued	-	550 000
Net cash used in investing activities	(15 402 809)	(14 552 185)
Cash flows from financing activities		
Proceeds from loans and borrowings	38 169 921	10 373 532
Repayment of loans and borrowings	(34 018 579)	(6 392 844)
Payment of finance lease liabilities	(55 764)	(7 630)
Net cash from financing activities	4 095 578	3 973 058
Net (decrease)/increase in cash and cash equivalents	(228 667)	2 989 560
Cash and cash equivalents at beginning of period	400 645	4 305 289
Cash and cash equivalents at end of period	171 978	7 294 849

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming an integral part of, these consolidated interim condensed financial statements set out on pages 7 to 19 and with the consolidated financial statements for the year ended 31 December 2015.

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Notes to the consolidated interim condensed financial statements (continued)

1 Background

(a) Organisation and types of activities

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 (Minutes No. 1 dated 29 June 2004 of the annual general shareholders' meeting of OJSC Mosenergo). Due to the amendments to the Civil Code of the Russian Federation, 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 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 Energoentr.

As at 30 June 2016, the Government of the Russian Federation owned 85.31% shares of PJSC Rosseti (formerly OJSC "IDGC Holding") (at 31 December 2015 – 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 for a fee 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 operates on 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 2016 and in 2015, 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% followed by its gradual decrease to 11% in 2015. As on 30 June 2016 the key rate was 10.5%. 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 operations and business prospects. The

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Notes to the consolidated interim condensed financial statements (continued)

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

2 Basis of preparation of financial statements

(a) Applied standards

These consolidated interim condensed financial statements for the six months ended 30 June 2016 have been prepared in accordance with the requirements of 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 for the year ended 31 December 2015.

(b) Basis of preparation and 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's 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 requirements. 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 2015.

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 2015.

Changes in accounting policies

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June 2016, and have not been applied in preparing these financial statements:

- IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
- IFRS 15 *Revenue from Contracts with Customers* and amendments to IFRS 15 *Revenue*

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Notes to the consolidated interim condensed financial statements (continued)

from *Contracts with Customers*. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

- IFRS 16 *Leases*. IFRS 16 is effective on a full or a partial retrospective basis for annual periods beginning on or after 1 January 2019, with earlier application permitted, subject to the simultaneous application of IFRS 15.

The Group currently analyzes the likely impact of these standards on its consolidated financial information. 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*.
- Amendments to IAS 12 *"Recognition of deferred tax assets for unrealised losses"*.
- Amendments to IAS 7 *"Disclosure Initiative"*.

Of these pronouncements, potentially the following will have no impact or have insignificant impact on the Group's consolidated financial information.

The following standards and amendments entered into force on 1 January 2016, and have been applied by the Group for the first time in 2016, but they did not impact or had insignificant impact on the consolidated interim condensed financial statements:

- Annual Improvements 2012-2014 Cycle.
- Amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*.
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*.
- Amendments to IAS 1 *Presentation of Financial Statements*.
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates*, entitled *Investment Entities: Applying the Consolidation Exception*.

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 2015.

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;

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Notes to the consolidated interim condensed financial statements (continued)

- ▶ 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 for the six months ended 30 June 2016 or the six months ended 30 June 2015.

The segment revenue and profit/(loss) before income tax for the six months ended 30 June 2016 were as follows (unaudited):

'000 RUB	Electricity transmission	Connection services	Other	Total
Revenues				
External revenues	62 447 374	3 598 803	606 502	66 652 679
Moscow	31 526 163	2 351 505	387 177	34 264 845
Moscow Region	30 921 211	1 247 298	219 325	32 387 834
Inter-segment revenue	–	–	1 105 785	1 105 785
Moscow	–	–	593 677	593 677
Moscow Region	–	–	512 108	512 108
Reportable segment profit/(loss) before income tax	2 870 467	3 235 977	50 213	6 156 657
Moscow	2 525 091	2 158 219	(75 303)	4 608 007
Moscow Region	345 376	1 077 758	125 516	1 548 650

The segment revenue and profit before income tax for the six months ended 30 June 2015 were 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 before income tax	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)

Segment assets are as follows:

'000 RUB	Electricity transmission	Connection services	Other	Unallocated	Total
30 June 2016 (unaudited)					
Total assets	308 564 147	5 507 045	3 863 415	22 529 172	340 463 779
Moscow	201 671 370	5 334 656	3 090 634	–	210 096 660
Moscow Region	106 892 777	172 389	772 781	–	107 837 947
Unallocated	–	–	–	22 529 172	22 529 172
31 December 2015					
Total assets	310 927 430	6 188 173	4 275 494	22 322 997	343 714 094
Moscow	203 905 108	5 582 066	3 399 289	–	212 886 463
Moscow Region	107 022 322	606 107	876 205	–	108 504 634
Unallocated	–	–	–	22 322 997	22 322 997

Segment liabilities are as follows:

'000 RUB	Electricity transmission	Connection services	Other	Unallocated	Total
30 June 2016 (unaudited)					
Total liabilities	87 642 604	39 211 680	1 453 873	21 561 502	149 869 659
Moscow	85 258 032	30 534 874	994 554	–	116 787 460
Moscow Region	2 384 572	8 676 806	459 319	–	11 520 697
Unallocated	–	–	–	21 561 502	21 561 502
31 December 2015					
Total liabilities	89 829 354	40 342 264	1 385 651	15 699 050	147 256 319
Moscow	83 244 265	27 378 479	927 359	–	111 550 103
Moscow Region	6 585 089	12 963 785	458 292	–	20 007 166
Unallocated	–	–	–	15 699 050	15 699 050

Reconciliation of reportable segment profit is presented below:

'000 RUB	6 months ended 30 June 2016 (unaudited)	6 months ended 30 June 2015 (unaudited)
Reportable segment profit	6 106 444	7 200 809
Other profit or loss	50 213	158 829
Unallocated	(4 396 645)	(2 710 220)
Total profit before income tax per Russian Accounting Standards	1 760 012	4 649 418
Expenses associated with leased property, plant and equipment	127 277	107 145
Borrowing costs capitalized	(8 627)	(2 271)
Depreciation and amortisation	2 015 058	1 900 795
Gain on disposal of property, plant and equipment	6 693	28 487
Release of allowance for impairment of accounts receivable	(1 189 864)	462 992
Provision for legal claims	169 673	(39 979)
Effect of loan discounting	(29 259)	(39 584)
Employee benefits obligation	(69 718)	(33 166)
Other items	(55 286)	403 533
Consolidated profit before income tax per IFRS	2 725 959	7 437 370

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Notes to the consolidated interim condensed financial statements (continued)

The segment disclosure was prepared in accordance with the segment disclosure as at 31 December 2015. However, for the purpose of preparation of the Consolidated interim condensed financial statements the Group does not present a reconciliation of segment assets and segment liabilities to the figures of the consolidated interim condensed financial statements as required by 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 (RAS). 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

During the six months ended 30 June 2016, revenue from one customer of the Group's electricity transmission segment represented approximately 84% (RUB 56 230 235 thousand) of the Group's total revenue (six months ended 30 June 2015: 90%; RUB 55 944 011 thousand).

7 Revenue

During the six months ended 30 June 2016 revenue amounted to RUB 67 218 401 thousand (six months ended 30 June 2015: RUB 61 526 776 thousand) and included revenue from electricity transmission services in the amount of RUB 62 447 374 thousand (six months ended 30 June 2015: RUB 55 944 011 thousand) and revenue from technological connection services in the amount of RUB 3 599 288 thousand (six months ended 30 June 2015: RUB 4 117 854 thousand).

8 Operating expenses, net

During the six months ended 30 June 2016 operating expenses, net amounted to RUB 62 478 827 thousand (six months ended 30 June 2015: RUB 53 179 482 thousand) and mainly included expenses relating to electricity transmission in the amount of RUB 32 940 216 thousand (six months ended 30 June 2015: RUB 21 287 299 thousand), purchased electricity for compensation of technological losses in the amount of RUB 6 915 365 thousand (six months ended 30 June 2015: RUB 5 142 520 thousand), employee benefits in the amount of RUB 9 313 840 thousand (six months ended 30 June 2015: RUB 8 965 785 thousand) and depreciation and amortisation expense in the amount of RUB 10 509 027 thousand (six months ended 30 June 2015: RUB 10 447 774 thousand).

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Notes to the consolidated interim condensed financial statements (continued)

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 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	
Cost							
Balance at 1 January 2016	38 945 859	199 108 733	77 351 031	81 578 203	33 921 856	430 905 682	
Additions (unaudited)	143 474	630 727	239 109	336 943	10 282 685	11 632 938	
Transfers (unaudited)	563 804	3 346 318	1 492 330	120 896	(5 523 348)	-	
Disposals (unaudited)	(3 041)	(200 610)	(10 552)	(15 319)	-	(229 522)	
Balance at 30 June 2016 (unaudited)	39 650 096	202 885 168	79 071 918	82 020 723	38 681 193	442 309 098	
Depreciation							
Balance at 1 January 2016	(9 197 476)	(58 318 568)	(26 983 969)	(45 844 491)	(649 504)	(140 994 008)	
Depreciation charge (unaudited)	(582 104)	(4 394 750)	(2 480 453)	(2 967 683)	-	(10 424 990)	
Impairment losses (unaudited)	-	-	-	-	102	102	
Disposals (unaudited)	1 425	71 790	9 120	14 832	-	97 167	
Transfers (unaudited)	(1 033)	(8 748)	(4 467)	(63)	14 311	-	
Balance at 30 June 2016 (unaudited)	(9 779 188)	(62 650 276)	(29 459 769)	(48 797 405)	(635 091)	(151 321 729)	
Net book value							
At 1 January 2016	29 748 383	140 790 165	50 367 062	35 733 712	33 272 352	289 911 674	
At 30 June 2016 (unaudited)	29 870 908	140 234 892	49 612 149	33 223 318	38 046 102	290 987 369	

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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 971 238 thousand as at 30 June 2016 with a capitalisation rate of 9.84% (30 June 2015: RUB 1 072 604 thousand with a capitalisation rate of 9.72%) 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 2016	Ordinary shares 31 December 2015
Issued shares, fully paid (pcs.)	48 707 091 574	48 707 091 574
Par value of one share (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 annual and general meetings of the Company's shareholders.

(b) Treasury shares

As at 30 June 2016 and 31 December 2015 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 general shareholders meeting held on 09 June 2016 the decision was made to declare dividends for the year 2015 for ordinary shares in the amount of RUB 6 317 310 thousand (RUB 0.1297 per share).

At the annual general 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).

11 Earnings per share

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

	30 June 2016	30 June 2015
Number of outstanding shares (pcs.)	48 707 091 574	48 707 091 574
Profit for the period attributable to the shareholders of PJSC MOESK ('000 RUB)	1 868 981	5 598 493
Earnings per share (RUB)	0.0384	0.1149

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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 2016	31 December 2015
Non-current		
Unsecured bank facility	46 273 684	53 367 880
Unsecured bond issues	18 399 856	12 404 381
Finance lease liabilities	409 373	101 362
Total non-current	65 082 913	65 873 623
Current		
Current portion of unsecured bond issues	355 594	5 544 245
Unsecured bank facility	8 605 178	–
Current portion of unsecured bank facility	4 175 734	2 590 016
Current portion of finance lease liabilities	50 347	13 249
Total current	13 186 853	8 147 510

The Group raised the following bank loans during the six months ended 30 June 2016:

Amount	Interest rate	Maturity
5 569 483*	11.50%	10.02.2019
4 884 009	11.27%	07.07.2016
3 676 292*	10.55%	30.09.2016
2 872 745*	11.39%	09.06.2016
1 000 000*	11.13%	31.08.2016
2 000 000*	11.50%	20.01.2019
1 638 600*	11.50%	25.01.2019
1 508 009*	11.25%	31.03.2019
1 086 282*	11.25%	30.03.2019
859 000*	10.55%	27.09.2016
74 497	13.40%	16.05.2018
1 043*	13.00%	23.03.2018

The Group raised the following bond issues during the six months ended 30 June 2016:

Amount	Interest rate	Maturity
7 999 980*	10.30%	25.04.2019
4 999 980*	10.00%	04.06.2019

The Group repaid the following significant bank facilities during the six months ended 30 June 2016:

	Amount
Bond*	12 000 000
Loan*	17 670 359
Loan	4 388 620

* Loan/bond from state-controlled bank.

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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:

'000 RUB	30 June 2016		31 December 2015		30 June 2016		31 December 2015	
	Currency	Nominal Interest rate	Nominal Interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Unsecured bonds	RUB	-	-	2024	683 183	436 429	737 377	512 063
Unsecured bank facility*	RUB	8.00%	8.00%	2018	10 010 930	10 010 930	10 013 151	10 013 151
Unsecured bank facility*	RUB	8.00%	8.00%	2018	8 530 630	8 530 630	8 532 523	8 532 523
Unsecured bank facility*	RUB	9.16%	9.16%	2017	4 105 131	4 105 131	4 106 174	4 106 174
Unsecured bank facility*	RUB	11.13%	-	2016	1 000 000	1 000 000	-	-
Unsecured bank facility*	RUB	10.55%	-	2016	4 535 292	4 535 292	-	-
Unsecured bank facility*	RUB	11.39%	-	2016	1 142	1 142	-	-
Unsecured bank facility*	RUB	7.46%	7.46%	2016	2 502 143	2 502 143	-	-
Unsecured bank facility*	RUB	-	12.00%	2017	-	-	2 502 867	2 502 867
Unsecured bank facility*	RUB	-	11.95%	2017	-	-	4 275 027	4 275 027
Unsecured bank facility*	RUB	11.50%	11.50%	2019	2 002 207	2 002 207	2 534 930	2 534 930
Unsecured bank facility*	RUB	-	11.50%	2017	-	-	2 002 655	2 002 655
Unsecured bank facility*	RUB	11.50%	11.50%	2018	6 960 911	6 960 911	8 015 123	8 015 123
Unsecured bank facility*	RUB	11.50%	11.50%	2019	9 222 550	9 222 550	6 962 214	6 962 214
Unsecured bank facility*	RUB	11.25%	-	2019	2 606 626	2 606 626	-	-
Unsecured bank facility	RUB	11.50%	11.50%	2017	5 004 385	5 004 385	5 009 452	5 009 452
Unsecured bank facility	RUB	11.50%	11.50%	2017	2 001 754	2 001 754	2 003 780	2 003 780
Unsecured bank facility	RUB	13.40%	-	2018	61 068	61 068	-	-
Unsecured bank facility	RUB	11.27%	-	2016	509 827	509 827	-	-
Unsecured bonds*	RUB	-	8.50%	2016	-	-	5 164 164	5 163 891
Unsecured bonds*	RUB	11.50%	11.50%	2024	5 147 671	5 145 328	5 147 673	5 144 386
Unsecured bonds*	RUB	-	13.20%	2018	-	-	7 144 298	7 128 286
Unsecured bonds*	RUB	10.30%	-	2019	8 142 228	8 142 208	-	-
Unsecured bonds*	RUB	10.00%	-	2019	5 031 505	5 031 485	-	-
Finance lease liabilities	RUB	-	-	-	-	459 720	-	114 611
					78 059 183	78 269 766	74 151 408	74 021 133

*Loans from state controlled entity

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Notes to the consolidated interim condensed financial statements (continued)

13 Provisions

'000 RUB	<u>Legal claims</u>
Balance at 1 January 2015	<u>555 545</u>
Provisions accrued during the year	327 248
Provisions reversed during the year	(14 498)
Provisions used during the year	<u>(572 028)</u>
Balance at 31 December 2015	<u>296 267</u>
Provisions accrued during the period	588 970
Provisions reversed during the period	(162 552)
Provisions used during the period	<u>(300 891)</u>
Balance at 30 June 2016	<u><u>421 794</u></u>

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 2015. 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 2016.

15 Capital commitments

Future capital expenditures for which contracts relates to capital construction of power grid facilities have been signed as at 30 June 2016 amount to RUB 35 538 277 thousand (31 December 2015: RUB 19 496 369 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) Pending litigations

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.

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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 applied to all counterparties, independent of whether the counterparties are government-related entities or not.

(a) Control relationships

As at 30 June 2016 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.

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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 2016 was RUB 442 951 thousand (six months ended 30 June 2015: RUB 244 101 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 2016 constitute 87% (six months ended 30 June 2015: 82%) of total Group revenues, including 92% (six months ended 30 June 2015: 90%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the six months ended 30 June 2016 constitute 89% (the six months ended 30 June 2015: 82%) of total transmission costs.

The most significant loans and borrowings from state-controlled entities, received and repaid, 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

On 28 July 2016 PJSC MOESK placed the bond BO-06 by JSC "Gazprombank" in the amount of RUB 5 000 000 thousand at the annual interest rate of 9.65%.

On 08 July 2016, the Company made a dividend payment to shareholders for the year 2015 for ordinary shares in the amount of RUB 6 289 769 thousand.