

JSC “FGC UES”

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

IAS 34 “INTERIM FINANCIAL REPORTING” AS ADOPTED BY THE EU

FOR THE SIX MONTHS ENDED 30 JUNE 2014

(UNAUDITED)

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ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report on Review of Condensed Consolidated Interim Financial Statements

To the Shareholders and Board of Directors

Joint-Stock Company "Federal Grid Company of Unified Energy System" (JSC "FGC UES")

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of JSC "FGC UES" (the "Company") and its subsidiaries (the "Group") as at 30 June 2014, and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six - month period then ended, and notes to the condensed consolidated interim financial statements (the "condensed consolidated interim financial statements"). Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed consolidated interim 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.

Audited entity: JSC "Federal Grid Company of Unified Energy System"

Registered by the Registration chamber of the Leningrad region on 25 June 2002, Registration No. 00/03124.

Entered in the Unified State Register of Legal Entities on 20 August 2002 by the Tax Inspectorate of Tosnensky area of the Leningrad region of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1024701893336, Certificate series 47 No. 000872082.

5A Akademika Chelomeya Street, Moscow 117630, Russian Federation

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements as at 30 June 2014 and for the six - month period then ended are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as adopted by the European Union.



Altukhov K.V.

Director, (power of attorney dated 1 October 2013 No. 65/13)

ZAO KPMG

27 August 2014

Moscow, Russian Federation

JSC "FGC UES"

Condensed Consolidated Interim Statement of Financial Position (Unaudited) (in millions of Russian Rouble unless otherwise stated)

	Notes	30 June 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	5	771,779	749,710
Intangible assets		10,472	11,228
Investments in associates		1,450	1,440
Available-for-sale investments	6	19,173	20,442
Deferred income tax assets		1,547	7,162
Other non-current assets	7	4,908	6,168
Total non-current assets		809,329	796,150
Current assets			
Cash and cash equivalents	8	44,146	21,627
Bank deposits		18,463	39,070
Accounts receivable and prepayments	9	42,987	48,694
Income tax prepayments		1,908	2,016
Inventories		9,114	7,990
Other current assets	7	646	2,955
Total current assets		117,264	122,352
TOTAL ASSETS		926,593	918,502
EQUITY AND LIABILITIES			
Equity			
Share capital: Ordinary shares	10	637,333	633,571
Treasury shares	10	(4,719)	(4,725)
Share premium		10,501	10,501
Reserves		184,473	184,916
Accumulated deficit		(256,224)	(275,024)
Equity attributable to shareholders of FGC UES		571,364	549,239
Non-controlling interest		(1,197)	(942)
Total equity		570,167	548,297
Non-current liabilities			
Deferred income tax liabilities		467	512
Non-current debt	12	247,917	257,964
Retirement benefit obligations		7,671	7,912
Total non-current liabilities		256,055	266,388
Current liabilities			
Accounts payable to shareholders of FGC UES		444	3,773
Current debt and current portion of non-current debt	12	25,098	29,624
Accounts payable and accrued charges	13	74,825	70,376
Income tax payable		4	44
Total current liabilities		100,371	103,817
Total liabilities		356,426	370,205
TOTAL EQUITY AND LIABILITIES		926,593	918,502

Authorised for issue and signed on behalf of the Management Board:

27 August 2014

First Deputy Chairman of the Management Board

Head of Accounting and Financial Reporting – Chief Accountant

V.A. Goncharov

A.P. Noskov

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

JSC “FGC UES”

Condensed Consolidated Interim Statement of Comprehensive Income (Unaudited) (in millions of Russian Rouble unless otherwise stated)

	Notes	Six months ended 30 June 2014	Six months ended 30 June 2013
Revenues	14	85,360	75,826
Other operating income		2,130	1,445
Operating expenses	15	(61,997)	(66,328)
Impairment of property, plant and equipment, net		(67)	(392)
Operating profit		25,426	10,551
Finance income	16	2,526	1,977
Finance costs	17	(2,790)	(349)
Impairment of available-for-sale investments	6	(929)	(22,977)
Impairment of promissory notes		-	(451)
Share of result of associates		1	8
Profit / (loss) before income tax		24,234	(11,241)
Income tax (expense) / benefit	11	(5,624)	322
Profit / (loss) for the period		18,610	(10,919)
Other comprehensive income / (loss)			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurements of retirement benefit obligations		239	546
Income tax relating to items that will not be reclassified		18	(49)
Total items that will not be reclassified to profit or loss		257	497
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value of available-for-sale investments	6	(1,269)	(24,031)
Impairment of available-for-sale investments recycled to profit or loss	6	929	22,977
Foreign currency translation difference		9	80
Income tax relating to items that may be reclassified		6	211
Total items that may be reclassified to profit or loss		(325)	(763)
Other comprehensive loss for the period, net of income tax		(68)	(266)
Total comprehensive income / (loss) for the period		18,542	(11,185)
Profit / (loss) attributable to:			
Shareholders of FGC UES	18	18,862	(10,536)
Non-controlling interest		(252)	(383)
Total comprehensive income / (loss) attributable to:			
Shareholders of FGC UES		18,794	(10,802)
Non-controlling interest		(252)	(383)
Earnings / (loss) per ordinary share for profit / (loss) attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	18	0.015	(0.008)

JSC “FGC UES”

Condensed Consolidated Interim Statement of Cash Flows (Unaudited) (in millions of Russian Rouble unless otherwise stated)

	Notes	Six months ended 30 June 2014	Six months ended 30 June 2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit / (loss) before income tax		24,234	(11,241)
<i>Adjustments to reconcile profit / (loss) before income tax to net cash provided by operations</i>			
Depreciation of property, plant and equipment	15	21,443	27,435
(Gain) / loss on disposal of property, plant and equipment		(626)	381
Amortisation of intangible assets		464	409
Impairment of property, plant and equipment, net	5	67	392
Impairment of available-for-sale investments	6	929	22,977
Impairment of promissory notes		-	451
Share of result of associates		(1)	(8)
Accrual of allowance for doubtful debtors	15	2,361	3,738
Share-based compensation		6	135
Finance income	16	(2,526)	(1,977)
Finance costs	17	2,790	349
Other non-cash operating income		(4)	(3)
Operating cash flows before working capital changes and income tax paid		49,137	43,038
<i>Working capital changes:</i>			
Decrease / (Increase) in accounts receivable and prepayments		3,235	(1,101)
Increase in inventories		(1,118)	(769)
Decrease in other non-current assets		1,222	134
Increase in accounts payable and accrued charges		2,157	2,268
Decrease in retirement benefit obligations		(307)	(48)
Income tax paid		-	(19)
Net cash generated by operating activities		54,326	43,503
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(32,509)	(42,235)
Proceeds from disposal of property, plant and equipment		899	211
Purchase of intangible assets		(88)	(457)
Purchase of promissory notes		-	(13,079)
Redemption of promissory notes		2,609	23,597
Investment in bank deposits		(383)	(1,618)
Redemption of bank deposits		20,662	1,555
Dividends received		1	-
Interest received		2,733	1,187
Net cash used in investing activities		(6,076)	(30,839)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from non-current borrowings		-	40,000
Repayment of non-current borrowings		(14,890)	(32,000)
Repayment of lease		(75)	(75)
Interest paid		(10,766)	(7,453)
Net cash (used in) / generated by financing activities		(25,731)	472
Net increase in cash and cash equivalents		22,519	13,136
Cash and cash equivalents at the beginning of the period	8	21,627	24,056
Cash and cash equivalents at the end of the period	8	44,146	37,192

The accompanying notes on are an integral part of these Condensed Consolidated Interim Financial Statements

JSC “FGC UES”

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited) (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 2014		633,571	10,501	(4,725)	184,916	(275,024)	549,239	(942)	548,297
Comprehensive income / (loss) for the period									
Profit /(loss) for the period		-	-	-	-	18,862	18,862	(252)	18,610
<i>Other comprehensive income / (loss), net of related income tax</i>									
Change in revaluation reserve for property, plant and equipment		-	-	-	(375)	375	-	-	-
Change in fair value of available-for-sale investments	6	-	-	-	(1,077)	-	(1,077)	-	(1,077)
Impairment of available-for-sale investments recycled to profit or loss	6	-	-	-	743	-	743	-	743
Remeasurements of retirement benefit obligations		-	-	-	257	-	257	-	257
Foreign currency translation difference		-	-	-	9	-	9	-	9
Total other comprehensive income / (loss)		-	-	-	(443)	375	(68)	-	(68)
Total comprehensive income / (loss) for the period		-	-	-	(443)	19,237	18,794	(252)	18,542
Transactions with shareholders of FGC UES recorded directly in equity									
Issue of share capital	10	3,762	-	-	-	-	3,762	-	3,762
Share-based compensation		-	-	6	-	-	6	-	6
Dividends declared		-	-	-	-	(437)	(437)	(3)	(440)
Total transactions with shareholders of FGC UES		3,762	-	6	-	(437)	3,331	(3)	3,328
As at 30 June 2014		637,333	10,501	(4,719)	184,473	(256,224)	571,364	(1,197)	570,167

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

JSC “FGC UES”

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited) (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 2013, as previously reported		630,193	10,501	(4,917)	313,117	(41,831)	907,063	733	907,796
Effect of changes in accounting policies		-	-	-	(1,333)	(1,294)	(2,627)	-	(2,627)
As at 1 January 2013 (restated)		630,193	10,501	(4,917)	311,784	(43,125)	904,436	733	905,169
Comprehensive income / (loss) for the period									
Loss for the period		-	-	-	-	(10,536)	(10,536)	(383)	(10,919)
Other comprehensive income / (loss), net of related income tax									
Change in revaluation reserve for property, plant and equipment		-	-	-	(492)	492	-	-	-
Change in fair value of available-for-sale investments	6	-	-	-	(19,224)	-	(19,224)	-	(19,224)
Impairment of available-for-sale investments recycled to profit or loss	6	-	-	-	18,381	-	18,381	-	18,381
Remeasurements of retirement benefit obligations		-	-	-	497	-	497	-	497
Foreign currency translation difference		-	-	-	80	-	80	-	80
Total other comprehensive (loss) / income		-	-	-	(758)	492	(266)	-	(266)
Total comprehensive loss for the period		-	-	-	(758)	(10,044)	(10,802)	(383)	(11,185)
Transactions with shareholders of FGC UES recorded directly in equity									
Issue of share capital	10	3,377	-	-	-	-	3,377	-	3,377
Share-based compensation		-	-	135	-	-	135	-	135
Dividends declared		-	-	-	-	-	-	(5)	(5)
Total transactions with shareholders of FGC UES		3,377	-	135	-	-	3,512	(5)	3,507
As at 30 June 2013		633,570	10,501	(4,782)	311,026	(53,169)	897,146	345	897,491

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

JSC “FGC UES”

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
(in millions of Russian Rouble unless otherwise stated)

Note 1. JSC “FGC UES” and its operations

Joint-Stock Company “Federal Grid Company of Unified Energy System” (“FGC UES” or the “Company”) was established in June 2002 for the purpose of operating and managing the electricity transmission grid infrastructure of the Russian Unified National Electric Grid (the “UNEG”).

FGC UES and its subsidiaries (the “Group”) act as the natural monopoly operator for the UNEG. The Group’s principal operating activities consist of providing electricity transmission services, providing connection to the electricity grid, maintaining the electricity grid system, technical supervision of grid facilities and investment activities in the development of the UNEG. The majority of the Group’s revenues are generated via tariffs for electricity transmission, which are approved by the Russian Federal Tariff Service (the “FTS”) based on the Regulatory Asset Base (“RAB”) regulation. FGC UES’s main customers are distribution grid companies (“IDGCs”), certain large commercial end customers and retail electricity supply companies.

On 14 June 2013 the Government of the Russian Federation (the “RF”) transferred its stake in FGC UES to OJSC “Russian Grids” (former OJSC “IDGC Holding”), the holding company of an electricity distribution group, controlled by the Government of the RF. As a result of this share transfer, as at 31 December 2013, FGC UES was 80.6% owned and controlled by OJSC “Russian Grids”. The remaining shares are traded on Moscow Interbank Currency Exchange and as Global Depository Receipts on the London Stock Exchange.

The registered office of the Company is located at 5A Akademika Chelomeya Street, Moscow 117630, Russian Federation.

Relationships with the state. The Government of the RF is the ultimate controlling party of FGC UES. The Government directly affects the Group’s operations via regulation over tariff by the FTS and its investment program is subject to approval by both the FTS and the Ministry of Energy. Ultimately the Government supports the Group due to its strategic position in the Russian Federation. The Government’s economic, social and other policies could have a material impact on the Group’s operations.

Business environment. The Group’s operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the RF, which display characteristics of an emerging market. The legal, tax and regulatory framework continue to develop, but are subject to varying interpretations and frequent changes which contribute to the challenges faced by entities operating in the RF (Note 19). These condensed consolidated interim financial statements (“Condensed Consolidated Interim Financial Statements”) reflect management’s assessment of the impact of the Russian business environment on the operations and financial position of the Group. The future business environment may differ from management’s assessment.

Seasonality of business. The Group’s services are not seasonal.

Note 2. Basis of preparation

Statement of compliance. These Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 “Interim Financial Reporting” as adopted by the European Union (the “EU”). They do not include all the information required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Selected explanatory notes are included to explain events and transactions that are significant for understanding of changes in the Group’s financial position and performance since the last annual consolidated financial statements. All information should be read in conjunction with the Group’s audited consolidated financial statements as at and for the year ended 31 December 2013 prepared in accordance with IFRS.

Critical accounting estimates and assumptions. In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2013.

Note 3. Summary of significant accounting policies

Except for the adoption of the new standards and interpretations effective for the annual periods beginning on 1 January 2014 and adopted by the EU, the accounting policies followed in the preparation of these Condensed Consolidated Interim Financial Statements were consistent with those applied in the consolidated financial statements as at and for the year ended 31 December 2013. Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual profit or loss.

JSC “FGC UES”

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
(in millions of Russian Rouble unless otherwise stated)

Note 3. Summary of significant accounting policies (continued)

Changes in accounting policies. Several new standards and amendments apply for the first time in 2014. However, they do not impact the Group’s annual consolidated financial statements or the condensed consolidated interim financial statements.

Note 4. Balances and transactions with related parties

Government-related entities. During the six months ended 30 June 2014 and 2013 the Group had the following significant transactions with government-related entities:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Transmission revenue	67,510	64,146
Electricity sales	1,240	451
Connection services	1,470	22
Purchased electricity for production needs	(3,676)	(3,526)

Significant balances with government-related entities are presented below:

	30 June 2014	31 December 2013
Cash and cash equivalents	29,879	8,485
Bank deposits	18,273	38,912
Other non-current assets	3,567	4,240
Available-for-sale investments	19,173	20,442
Trade receivables (Net of allowance for doubtful debtors of RR 3,258 million as at 30 June 2014 and RR 2,244 million as at 31 December 2013)	25,965	21,377
Other current assets	105	2,241
Advances to construction companies and suppliers of property, plant and equipment (included in CIP)	2,140	1,574
Accounts payable to shareholders of FGC UES	(444)	(3,773)
Non-current debt	(568)	(614)
Current debt	(90)	(136)
Accounts payable and accrued charges	(18,096)	(20,827)

As at 30 June 2014 the Group had long-term undrawn committed financing facilities with government-related banks of RR 105,000 million (as at 31 December 2013: RR 105,000 million) (Note 12). There were no short-term undrawn committed financing facilities with government-related banks as at 30 June 2014 and 31 December 2013.

Tax balances and charges are disclosed in Notes 11, 13 and 15. Tax transactions are disclosed in the Consolidated Interim Statement of Comprehensive Income.

Directors’ compensation. Total remuneration in the form of salary, bonuses and non-cash benefits (social security contributions are not included) provided to the members of the Management Board for the six months ended 30 June 2014 and 2013 was as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Short-term compensation, including salary and bonuses	76	181
Termination benefits	-	141
Post-employment benefits and other long-term benefits	3	2
Share-based compensation	1	63
Total	80	387

No remuneration was provided to the members of the Board of Directors for the six months ended 30 June 2014 and 2013.

JSC “FGC UES”

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) (in millions of Russian Rouble unless otherwise stated)

Note 5. Property, plant and equipment

	Buildings	Power trans- mission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Balance as at 1 January 2014	20,912	495,652	341,136	306,514	43,829	1,208,043
Additions	397	428	98	41,966	963	43,852
Transfers	(147)	5,526	7,109	(15,372)	2,884	-
Disposals	(1)	(12)	(374)	(78)	(136)	(601)
Balance as at 30 June 2014	21,161	501,594	347,969	333,030	47,540	1,251,294
Accumulated depreciation and impairment						
Balance as at 1 January 2014	(3,423)	(157,012)	(158,450)	(117,237)	(22,211)	(458,333)
Depreciation charge	(102)	(10,168)	(8,748)	-	(2,425)	(21,443)
Transfers	(95)	(605)	(2,289)	3,729	(740)	-
Impairment loss	-	-	-	(65)	(2)	(67)
Disposals	-	4	209	-	115	328
Balance as at 30 June 2014	(3,620)	(167,781)	(169,278)	(113,573)	(25,263)	(479,515)
Net book value as at 1 January 2014	17,489	338,640	182,686	189,277	21,618	749,710
Net book value as at 30 June 2014	17,541	333,813	178,691	219,457	22,277	771,779

	Buildings	Power trans- mission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Balance as at 1 January 2013	19,131	554,868	285,543	315,161	31,350	1,206,053
Additions	491	19	193	48,087	1,396	50,186
Transfers	547	6,490	3,908	(11,486)	541	-
Disposals	-	(129)	(689)	(31)	(47)	(896)
Reversal of impairment provision	-	-	-	5	-	5
Balance as at 30 June 2013	20,169	561,248	288,955	351,736	33,240	1,255,348
Accumulated depreciation and impairment						
Balance as at 1 January 2013	(989)	(55,206)	(43,656)	(1,465)	(8,202)	(109,518)
Depreciation charge	(330)	(13,244)	(11,391)	-	(2,470)	(27,435)
Impairment loss	-	(29)	-	(353)	(15)	(397)
Disposals	-	24	267	-	12	303
Balance as at 30 June 2013	(1,319)	(68,455)	(54,780)	(1,818)	(10,675)	(137,047)
Net book value as at 1 January 2013	18,142	499,662	241,887	313,696	23,148	1,096,535
Net book value as at 30 June 2013	18,850	492,793	234,175	349,918	22,565	1,118,301

As at 31 December 2013 the Group estimated the recoverable amount of property plant and equipment under IAS 36 “Impairment of assets” as the management considered deterioration in expected tariffs’ growth as an indicator that fair value of property, plant and equipment may differ materially from its carrying amount. As at 31 December 2013 the Group recognised a net decrease in carrying value of property, plant and equipment, which consisted of an impairment and revaluation decrease related to result of value-in-use calculation.

JSC “FGC UES”

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

(in millions of Russian Rouble unless otherwise stated)

Note 6. Available-for-sale investments

	1 January 2014	Change in fair value*	Impairment charge	30 June 2014
OJSC “INTER RAO UES”	19,379	-	(929)	18,450
OJSC “Russian Grids”	1,063	(340)	-	723
Total	20,442	(340)	(929)	19,173

	1 January 2013	Change in fair value*	Impairment charge	30 June 2013
OJSC “INTER RAO UES”	48,136	-	(22,977)	25,159
OJSC “Russian Grids”	2,481	(1,054)	-	1,427
Total	50,617	(1,054)	(22,977)	26,586

* For the six months ended 30 June 2014 change in fair value of these available-for-sale investments in the total amount of RR 1,269 million was recognised in other comprehensive income (for the six months ended 30 June 2013: RR 24,031 million). The amount of RR 929 million was reclassified from other comprehensive income to profit or loss for the six months ended 30 June 2014 (for the six months ended 30 June 2013: RR 22,977 million).

Valuation of available-for sale investments is made on a recurring basis using quoted market prices (Level 1 inputs) at the end of each reporting period.

Note 7. Other non-current and other current assets

	30 June 2014	31 December 2013
Long-term trade receivables (net of allowance for doubtful debtors of RR 707 million as at 30 June 2014 and RR 905 million as at 31 December 2013)	3,820	4,482
Long-term promissory notes	436	874
VAT recoverable	82	82
Other non-current assets	570	730
Total other non-current assets	4,908	6,168

Included in long-term non-bank promissory notes are promissory notes of LLC “ENERGO-finance” which are fully impaired. The amount of impairment provision was RR 12,022 million as at 30 June 2014 and 31 December 2013.

Other current assets include short-term promissory notes in the total amount of RR 576 million as at 30 June 2014 (31 December 2013: RR 2,896 million).

All promissory notes are denominated in Russian Rouble. Fair value of promissory notes approximates their carrying value.

Note 8. Cash and cash equivalents

	30 June 2014	31 December 2013
Cash at bank and in hand	27,687	17,435
Cash equivalents	16,459	4,192
Total cash and cash equivalents	44,146	21,627

Cash equivalents include short-term investments in certificates of deposit with original maturities of three months or less and contractual interest rate of 6.25-9.35% as at 30 June 2014 and 5.27-6.75% as at 31 December 2013. There were no certificates of deposit denominated in foreign currency included in cash equivalents as at 30 June 2014 and 31 December 2013.

Fair value of bank deposits approximates their carrying value.

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Note 9. Accounts receivable and prepayments

	30 June 2014	31 December 2013
Trade receivables		
(Net of allowance for doubtful debtors of RR 7,729 million as at 30 June 2014 and RR 5,689 million as at 31 December 2013)	30,329	26,554
Other receivables		
(Net of allowance for doubtful debtors of RR 1,048 million as at 30 June 2014 and RR 789 million as at 31 December 2013)	2,955	3,854
VAT recoverable	7,311	15,553
Advances to suppliers		
(Net of allowance for doubtful debtors of RR 1,984 million as at 30 June 2013 and RR 1,979 million as at 31 December 2013)	2,327	2,652
Tax prepayments	65	81
Total accounts receivable and prepayments	42,987	48,694

Trade and other receivables are not interest-bearing and are largely due in 30 to 90 days as at 30 June 2014 and 31 December 2013. Given the short period of the trade and other receivables repayment, the fair value of such receivables approximates their book value.

Note 10. Equity

Share capital

	Number of shares issued and fully paid		30 June 2014	31 December 2013
	30 June 2014	31 December 2013		
Ordinary shares	1,274,665,323,063	1,267,141,015,996	637,333	633,570

Additional issue of shares. In December 2013, FGC UES started an additional share issue. The prepayment of RR 3,762 million received for shares to be issued was included as at 31 December 2013 in the Consolidated Statement of Financial Position as accounts payable to the shareholders of FGC UES.

In February 2014, the Company completed and registered the additional share issue. As the result of this share issue 7,524,307,067 ordinary shares with a nominal value of RR 0.5 per share were placed for a previously received consideration of RR 3,762 million in cash. As a result of the share issue, the interest of OJSC “Russian Grids” in the Company decreased from 80.6 to 80.13 per cent.

Treasury shares. The Group through a subsidiary holds 13,727,165 thousand ordinary shares in treasury at a total cost of RR 4,719 million (as at 31 December 2013: 4,725 million).

In 2014, treasury shares decreased by RR 6 million with the corresponding recognition of expense relating to share-based compensation, since management plans to use treasury shares for the share option plan.

Dividends. At the Annual General Meeting in June 2014 the decision was approved to declare dividends for the first quarter of 2014 amounted to RR 437 million.

Note 11. Income tax

Income tax (expense) / benefit is recognised based on the management’s best estimate of the weighted average annual income tax rate expected for the full financial year.

During the six months ended 30 June 2014 and 2013 most entities of the Group were subject to tax rates of 20 percent on taxable profit.

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Note 12. Non-current debt

	Effective interest rate	Due	Option	30 June 2014	31 December 2013
Certified interest-bearing non-convertible bearer bonds:					
with fixed rates	7.5-8.75%	2019-2028	2014-2022	133,048	147,621
with variable rates	CPI+1-2.5%	2027-2048	2022-2047	111,167	111,121
Stock Exchange authorised certified interest-bearing non-convertible bearer bonds	8.10%	2015	2015	10,151	10,153
Loan participation notes (LPNs)	8.45%	2019	-	17,943	17,943
Finance lease liabilities	9.50%	2018	-	658	700
Total debt				272,967	287,538
Less: current portion of non-current bonds and LPNs				(24,960)	(29,488)
Less: current portion of finance lease liabilities				(90)	(86)
Total non-current debt				247,917	257,964

All debt instruments are denominated in Russian Rouble.

As at 30 June 2014 the estimated fair value of non-convertible bearer bonds (including the current portion) with fixed rates and loan participation notes was RR 152,906 million (as at 31 December 2013: RR 173,627 million), which was measured using the market prices for quoted FGC UES bonds (Level 1 inputs) as at 30 June 2014.

As at 30 June 2014 the estimated fair value of non-convertible bearer bonds (including the current portion) with variable rates (bonds Series 22) was RR 10,088 million (as at 31 December 2013: RR 10,139 million), which was measured using the market prices for quoted FGC UES bonds (Level 1 inputs) as at 30 June 2014.

The fair value of other non-convertible bearer bonds (including the current portion) with variable rates and finance lease liabilities approximates their carrying amount.

As at 30 June 2014 the Group had long-term undrawn committed financing facilities of RR 157,500 million (as at 31 December 2013: RR 157,500 million) which could be used for the general purposes of the Group.

Note 13. Accounts payable and accrued charges

	30 June 2014	31 December 2013
Trade payables	17,587	18,340
Accounts payable to construction companies and suppliers of property, plant and equipment	38,698	36,456
Advances received	8,284	10,306
Provision for legal claims	4,033	345
Accounts payable to employees	2,588	2,470
Taxes other than on income payable	2,285	1,344
Other creditors and accrued liabilities	1,350	1,115
Total accounts payable and accrued charges	74,825	70,376

Movement in provision for legal claims:

Carrying amount at 1 January 2014	345
Additional amounts charged to profit or loss (Note 19)	3,837
Unused amounts reversed	(149)
Carrying amount at 30 June 2014	4,033

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) (in millions of Russian Rouble unless otherwise stated)

Note 14. Revenue

	Six months ended 30 June 2014	Six months ended 30 June 2013
Transmission fee	79,465	73,913
Connection services	3,443	280
Electricity sales	2,117	1,357
Grids repair and maintenance services	335	276
Total revenues	85,360	75,826

Note 15. Operating expenses

	Six months ended 30 June 2014	Six months ended 30 June 2013
Depreciation of property, plant and equipment	21,443	27,435
Employee benefit expenses and payroll taxes	13,651	14,656
Purchased electricity	7,125	7,009
Movement in provision for legal claims	3,688	77
Taxes, other than on income	3,417	2,287
Accrual of allowance for doubtful debtors	2,361	3,738
Electricity transit	1,383	1,164
Repairs and maintenance of equipment (by contractors)	1,071	1,128
Business trips and transportation expenses	967	1,037
Rent	939	885
Security services	930	966
Materials for repair	902	1,061
Other materials	828	922
Other expenses	3,292	3,963
Total operating expenses	61,997	66,328

Note 16. Finance income

	Six months ended 30 June 2014	Six months ended 30 June 2013
Interest income	2,501	1,965
Foreign currency exchange differences	25	11
Other finance income	-	1
Total finance income	2,526	1,977

Note 17. Finance costs

	Six months ended 30 June 2014	Six months ended 30 June 2013
Interest expense	11,188	8,669
Net interest on the defined benefit obligations	304	258
Foreign currency exchange differences	21	25
Other finance costs	1	29
Total finance cost	11,514	8,981
Less: capitalised interest expenses	(8,724)	(8,632)
Total finance cost recognised in profit or loss	2,790	349

Note 18. Earnings / (loss) per ordinary share for profit / (loss) attributable to shareholders of FGC UES

	Six months ended 30 June 2014	Six months ended 30 June 2013
Weighted average number of ordinary shares (millions of shares)	1,260,938	1,253,414
Profit / (loss) attributable to shareholders of FGC UES (millions of RR)	18,862	(10,536)
Weighted average earning per share – basic and diluted (in RR)	0.015	(0.008)

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings / (loss) per share equal the basic earnings / (loss) per share.

Note 19. Contingencies, commitments, operating and financial risks

There have been no changes in political environment, insurance policies and environmental matters during the six months ended 30 June 2014 in comparison with those described in the Group's consolidated financial statements for the year ended 31 December 2013 as well as there have been no changes in operating and financial risk management policies since year end.

Legal proceedings. In the normal course of business the Group entities may be a party to certain legal proceedings. In the opinion of management, currently there are no existing legal proceedings or claims outstanding or final dispositions which will have a material adverse effect on the financial position of the Group, except for the following.

In June 2014 Moscow City Arbitrage Court granted a judgment to OJSC “Lenenergo” in a case against the Company amounted to RR 3 588 million. OJSC “Lenenergo” challenged the amount related to electricity losses in UNEG paid to the Company as a part of transmission fee in 2008-2013. The Company lodged an appeal, the court hearing is set for September 2014. The management assessed that it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation, consequently, a provision for legal claims amounted to RR 3 588 million has been accrued in these condensed consolidated interim financial statements.

As at 30 June 2014 the Group's subsidiary, OJSC “Nurenergo” was engaged in a number of litigations involving claims amounting in total to RR 10,550 million (as at 31 December 2013: RR 7,015 million), for collection of amounts payable for electricity purchased by OJSC “Nurenergo”. This amount is recorded within accounts payable. No additional provision has been made as the Group's management believes that these claims are unlikely to result in any further liabilities.

In September 2012, the Commercial Court of the Republic of Chechnya commenced the observation procedure in respect of OJSC “Nurenergo”. In accordance with Russian legislation on bankruptcy, all the above-mentioned litigations were suspended. In March 2013, the Federal Commercial Court of the North Caucasus District granted a cassational appeal filed by OJSC “Nurenergo”, annulled the original court decision, and remitted the case for a new trial. In October 2013 the Commercial Court of the Republic of Chechnya re-established the observation procedure in respect of the OJSC “Nurenergo”. In December 2013, the Sixteenth Commercial Court of Appeal granted an appeal to the company and dismissed the bankruptcy case, this decision has been appealed by the plaintiff and on June, 24th 2014 the the Court remitted the case on the observation procedure to the new trial in the Commercial court of the Republic of Chechnya. At the same time, on June, 9th 2014, the Commercial Court of the Republic of Chechnya finalised the observation procedure and declared OJSC “Nurenergo” bankrupt and appointed bankruptcy trustee, who appealed the decision made by the Sixteenth Commercial Court of Appeal on re-establishing observation procedure. Further litigations are scheduled in September and November 2014.

Tax contingency. Russian tax and customs legislation is subject to varying interpretation when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by the relevant regional and federal authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of decision to perform tax review. Under certain circumstances reviews may cover longer periods.

As at 30 June 2014 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

Capital commitments related to construction of property, plant and equipment. Future capital expenditures for which contracts have been signed amount to RR 218,331 million as at 30 June 2014 (as at 31 December 2013: RR 234,096 million) including VAT. These amounts include accounts payable to construction companies and suppliers of property, plant and equipment in the amount of RR 38,698 million as at 30 June 2014 (as at 31 December 2013: RR 36,456 million) (Note 13).

Note 20. Segment information

The Group operates within one operating segment. The Group's single primary activity is provision of electricity transmission services within the Russian Federation which is represented as Transmission segment. There are no differences from the last annual consolidated financial statements in the basis of segmentation.

The Board of Directors of the Company has been determined as chief operating decision maker (the “CODM”) of the Group which generally analyses information relating to Transmission segment. The Board of Directors does not evaluate financial information of other components of the Group to allocate resources or assess performance and does not determine these components as segments. The key indicator of the transmission

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Note 20. Segment information (continued)

segment performance is return on equity ratio (ROE). It is calculated based on the statutory financial statements prepared according to RAR as net profit divided by net assets. Accordingly, the measure of transmission segment profit or loss analysed by the CODM is net profit of segment based on the statutory financial statements prepared according to RAR. The other information provided to the CODM is also based on statutory financial statements prepared according to RAR.

	Transmission segment – based on statutory financial statements prepared according to RAR	
	Six months ended 30 June 2014	Six months ended 30 June 2013
Revenue from external customers	83,616	74,613
Intercompany revenue	108	203
Total revenue	83,724	74,816
Segment profit / (loss) for the period	1,027	(4,865)

	30 June 2014	31 December 2013
Total reportable segment assets (RAR)	1,228,434	1,234,158
Total reportable segment liabilities (RAR)	412,874	422,779

A reconciliation of the reportable segment’s revenue to the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2014 and 2013 is presented below:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Total revenue from segment (RAR)	83,724	74,816
Reclassification between revenue and other income	(531)	(297)
Non-segmental revenue	2,275	1,511
Elimination of intercompany revenue	(108)	(204)
Total revenue (IFRS)	85,360	75,826

A reconciliation of the reportable segment’s profit to the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2014 and 2013 is presented below:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Profit / (loss) for the period (RAR)	1,027	(4,865)
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	20,846	7,586
Impairment of property, plant and equipment	(19)	(179)
Financial instruments		
Impairment of available-for-sale investments	(929)	(22,977)
Reversal of impairment of promissory notes	797	376
Discounting of promissory notes	(756)	(666)
Consolidation		
Reversal of impairment of intercompany promissory notes	1,030	8,126
Other		
Adjustment to provision for legal claims	(3,688)	(77)
Adjustment to allowance for doubtful debtors	2,707	437
Accrual of retirement benefit obligations	(198)	(284)
Write-off of research and development to expenses	155	(5)
Share-based compensation	(6)	(135)
Share of result of associates	1	8
Deferred tax adjustment	(29)	4,277
Other adjustments	310	(93)
Non-segmental other operating loss	(2,638)	(2,448)
Profit / (loss) for the period (IFRS)	18,610	(10,919)

Information on revenue for separate services and products of the Group is presented in Note 14. The Group performs most of its activities in the Russian Federation and does not have any significant revenue from foreign customers or any non-current assets located in foreign countries.

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

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Note 20. Segment information (continued)

The major customers of the Group are government-related entities. The amounts of revenue from such entities are disclosed in Note 4. The Group has no other major customers with turnover over 10 percent of the Group revenue.