PJSC “FGC UES”

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

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

AS AT AND FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2016

(UNAUDITED)

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Auditors' Report on Review of Condensed Consolidated Interim Financial Statements

To the Shareholders and Board of Directors

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of PJSC "FGC UES" (the "Company") and its subsidiaries (the "Group") as at 30 June 2016, and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three- and six-month periods 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, Russian Federation, 117630.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, 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 2016 and for the three- and six-month periods 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.

Other matter

The comparative amounts for the three-month period ended 30 June 2015 were not reviewed.

Altukhov K.V.

Director, power of attorney dated 16 March 2015 No. 04/15

JSC "KPMG"

22 August 2016

Moscow, Russian Federation

PJSC "FGC UES"

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

	Notes	30 June 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	5	826,518	821,114
Intangible assets		7,492	7,752
Investments in associates and joint ventures		1,407	1,691
Available-for-sale investments	6	50,092	22,271
Deferred income tax assets		18	260
Long-term accounts receivable	8	18,432	15,180
Other non-current assets		2,046	1,799
Total non-current assets		**906,005**	**870,067**
Current assets			
Cash and cash equivalents	7	53,054	28,176
Bank deposits	7	9,698	30,269
Accounts receivable and prepayments	8	55,950	50,043
Income tax prepayments		1,730	432
Inventories		16,175	16,063
Other current assets		295	278
Total current assets		**136,902**	**125,261**
TOTAL ASSETS		**1,042,907**	**995,328**
EQUITY AND LIABILITIES			
Equity			
Share capital: Ordinary shares	9	637,333	637,333
Treasury shares	9	(4,719)	(4,719)
Share premium		10,501	10,501
Reserves		251,248	229,578
Accumulated deficit		(224,899)	(252,980)
Equity attributable to shareholders of FGC UES		**669,464**	**619,713**
Non-controlling interest		904	(75)
Total equity		**670,368**	**619,638**
Non-current liabilities			
Deferred income tax liabilities		22,977	14,589
Non-current debt	11	240,066	250,076
Deferred income		1,087	1,105
Retirement benefit obligations		7,982	7,357
Total non-current liabilities		**272,112**	**273,127**
Current liabilities			
Accounts payable to shareholders of FGC UES		16,983	6
Current debt and current portion of non-current debt	11	29,783	31,466
Accounts payable and accrued charges	12	53,659	71,036
Income tax payable		2	55
Total current liabilities		**100,427**	**102,563**
Total liabilities		**372,539**	**375,690**
TOTAL EQUITY AND LIABILITIES		**1,042,907**	**995,328**

22 August 2016

Acting Chairman of the Management Board — R.E. Filimonov

Head of Accounting and Financial Reporting – Chief Accountant — A.P. Noskov

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

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

	Notes	Three months ended 30 June		Six months ended 30 June	
		2016	**2015**	**2016**	**2015**
Revenues	13	58,046	40,907	110,586	83,475
Other operating income		1,946	708	2,735	1,759
Operating expenses	14	(38,916)	(29,914)	(70,417)	(62,303)
Gain on derecognition of subsidiary	20	11,812	-	11,812	-
Loss on re-measurement of assets held for sale		-	(542)	-	(542)
Impairment of property, plant and equipment, net	5	(1,247)	(270)	(1,965)	(472)
Operating profit		**31,641**	**10,889**	**52,751**	**21,917**
Finance income	15	1,927	1,797	3,725	3,876
Finance costs	16	(2,241)	(1,695)	(4,897)	(4,037)
Impairment of available-for-sale investments	6	-	(26)	-	(26)
Share of result of associates		(286)	(1)	(282)	(14)
Profit before income tax		**31,041**	**10,964**	**51,297**	**21,716**
Income tax expense	10	(2,599)	(2,735)	(6,434)	(4,374)
Profit for the period		**28,442**	**8,229**	**44,863**	**17,342**
Other comprehensive income / (loss)					
Items that will not be reclassified subsequently to profit or loss					
Remeasurements of retirement benefit obligations		(355)	(506)	(614)	(1,027)
Income tax relating to items that will not be reclassified		14	6	30	45
Total items that will not be reclassified to profit or loss		**(341)**	**(500)**	**(584)**	**(982)**
Items that may be reclassified subsequently to profit or loss					
Change in fair value of available-for-sale investments	6	13,519	2,266	27,820	9,840
Impairment of available-for-sale investments recycled to profit or loss	6	-	26	-	26
Foreign currency translation difference		(89)	(75)	(2)	(322)
Income tax relating to items that may be reclassified		(2,704)	(458)	(5,564)	(1,973)
Total items that may be reclassified to profit or loss		**10,726**	**1,759**	**22,254**	**7,571**
Other comprehensive profit for the period, net of income tax		**10,385**	**1,259**	**21,670**	**6,589**
Total comprehensive income for the period		**38,827**	**9,488**	**66,533**	**23,931**
Profit / (loss) attributable to:					
Shareholders of FGC UES	17	28,531	8,601	45,057	17,692
Non-controlling interest		(89)	(372)	(194)	(350)
Total comprehensive income / (loss) attributable to:					
Shareholders of FGC UES		38,916	9,860	66,727	24,281
Non-controlling interest		(89)	(372)	(194)	(350)
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	17	**0.023**	**0.007**	**0.036**	**0.014**

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

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**51,297**	**21,716**
Adjustments to reconcile profit before income tax to net cash provided by operations			
Depreciation of property, plant and equipment	5,14	19,712	19,645
Gain on disposal of property, plant and equipment		(1,202)	(562)
Amortisation of intangible assets		687	747
Impairment of property, plant and equipment, net	5	1,965	472
Gain on derecognition of subsidiary	20	(11,812)	-
Impairment of available-for-sale investments	6	-	26
Loss on re-measurement of assets held for sale		-	542
Share of result of associates		282	14
(Reversal) / accrual of allowance for doubtful debtors	14	(2,626)	6,719
Finance income	15	(3,725)	(3,876)
Finance costs	16	4,897	4,037
Other non-cash operating (income) / loss		(30)	19
Operating cash flows before working capital changes and income tax paid		**59,445**	**49,499**
Working capital changes:			
(Increase) / decrease in accounts receivable and prepayments		(8,980)	1,134
Decrease / (increase) in inventories		1,142	(2,391)
(Increase) / decrease in other non-current and current assets		(38)	303
Increase in accounts payable and accrued charges		6,726	2,277
Decrease in retirement benefit obligations		(311)	(353)
Income tax (paid) / received		(4,689)	855
Net cash generated by operating activities		**53,295**	**51,324**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(28,472)	(44,784)
Proceeds from disposal of property, plant and equipment		2,907	1,590
Purchase of intangible assets		(427)	(275)
Redemption of promissory notes		94	550
Investment in bank deposits		(4,824)	(28,138)
Redemption of bank deposits		25,395	277
Dividends received		246	21
Interest received		3,124	3,495
Net cash used in investing activities		**(1,957)**	**(67,264)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from current and non-current borrowings		-	40,000
Repayment of non-current borrowings		(9,954)	(9,797)
Loans given		(45)	-
Repayment of lease		(75)	(75)
Interest paid		(16,386)	(12,321)
Net cash (used in) / generated by financing activities		**(26,460)**	**17,807**
Net increase in cash and cash equivalents		**24,878**	**1,867**
Cash and cash equivalents at the beginning of the period	7	**28,176**	**42,068**
Cash and cash equivalents at the end of the period	7	**53,054**	**43,935**

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)
(in millions of Russian Rouble unless otherwise stated)

		Attributable to shareholders of FGC UES							
	Notes	**Share capital**	**Share premium**	**Treasury shares**	**Reserves**	**Accumu-lated deficit**	**Total**	**Non-controlling interest**	**Total equity**
As at 1 January 2016		**637,333**	**10,501**	**(4,719)**	**229,578**	**(252,980)**	**619,713**	**(75)**	**619,638**
Comprehensive income for the period									
Profit for the period		-	-	-	-	45,057	**45,057**	(194)	**44,863**
Other comprehensive income / (loss), net of related income tax									
Change in fair value of available-for-sale investments	6	-	-	-	22,256	-	**22,256**	-	**22,256**
Remeasurements of retirement benefit obligations		-	-	-	(584)	-	**(584)**	-	**(584)**
Foreign currency translation difference		-	-	-	(2)	-	**(2)**	-	**(2)**
Total other comprehensive income		-	-	-	***21,670***	-	***21,670***	-	***21,670***
Total comprehensive income for the period		-	-	-	21,670	45,057	**66,727**	(194)	**66,533**
Transactions with shareholders of FGC UES recorded directly in equity									
Dividends declared	9	-	-	-	-	(16,976)	**(16,976)**	(1)	**(16,977)**
Total transactions with shareholders of FGC UES		-	-	-	-	(16,976)	**(16,976)**	(1)	**(16,977)**
Changes in ownership									
Derecognition of subsidiary	20	-	-	-	-	-	-	1,174	**1,174**
Total changes in ownership		-	-	-	-	-	-	1,174	**1,174**
As at 30 June 2016		**637,333**	**10,501**	**(4,719)**	**251,248**	**(224,899)**	**669,464**	**904**	**670,368**

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

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)
(in millions of Russian Rouble unless otherwise stated)

		Attributable to shareholders of FGC UES							
	Notes	**Share capital**	**Share premium**	**Treasury shares**	**Reserves**	**Accumu-lated deficit**	**Total**	**Non-controlling interest**	**Total equity**
As at 1 January 2015		**637,333**	**10,501**	**(4,719)**	**226,382**	**(297,237)**	**572,260**	**971**	**573,231**
Comprehensive income for the period									
Profit for the period		-	-	-	-	17,692	**17,692**	(350)	**17,342**
Other comprehensive income / (loss), net of related income tax									
Change in fair value of available-for-sale investments	6	-	-	-	7,872	-	**7,872**	-	**7,872**
Impairment of available-for-sale investments recycled to profit or loss	6	-	-	-	21	-	**21**	-	**21**
Remeasurements of retirement benefit obligations		-	-	-	(982)	-	**(982)**	-	**(982)**
Foreign currency translation difference		-	-	-	(322)	-	**(322)**	-	**(322)**
Total other comprehensive income		***-***	***-***	***-***	***6,589***	***-***	***6,589***	***-***	***6,589***
Total comprehensive income for the period		-	-	-	6,589	17,692	**24,281**	(350)	**23,931**
Transactions with shareholders of FGC UES recorded directly in equity									
Dividends declared	9	-	-	-	-	(847)	**(847)**	(1)	**(848)**
Total transactions with shareholders of FGC UES		-	-	-	-	(847)	**(847)**	(1)	**(848)**
As at 30 June 2015		**637,333**	**10,501**	**(4,719)**	**232,971**	**(280,392)**	**595,694**	**620**	**596,314**

Note 1. PJSC “FGC UES” and its operations

Public 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 Antimonopoly Service (the “FAS” – legal successor of the Federal Tariff Service, abolished on 21 July 2015) 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 PJSC “Russian Grids” (former OJSC “IDGC Holding”), the holding company of an electricity distribution group, controlled by the Government of the RF. As at 30 June 2016, FGC UES was 80.13% owned and controlled by PJSC “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 FAS and its investment program is subject to approval by both the FAS 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 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 conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements (“Consolidated Financial Statements”) reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

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

(in millions of Russian Rouble unless otherwise stated)

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 2015 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 2015, except the following.

Loss of control over OJSC “Nurenergo”. On 29 June 2016 the Commercial Court of the Republic of Chechnya declared OJSC “Nurenergo”, the subsidiary of FGC UES, bankrupt and appointed an external bankruptcy manager. In accordance with Russian legislation on insolvency (bankruptcy), since the date a debtor is declared bankrupt, the power of all executive bodies of a debtor is terminated and transferred to a bankruptcy manager. Due to this fact FGC UES lost the right to direct relevant activities of the subsidiary and, therefore, lost control over the entity. As a result the Group derecognized the assets and liabilities of the OJSC “Nurenergo” as at 30 June 2016 and recognised gain amounted to RR 11,812 million in statement of profit and loss and other comprehensive income (Note 20).

Fair value. Management believes that the fair value of financial assets and liabilities carried at amortised cost is not significantly different from their carrying amounts, except for non-current and current debt (Note 11). The carrying value of trade payables and trade receivables less provision for doubtful debtors is assumed to approximate their fair value due to their short-term nature. The financial instruments of the Group carried at fair value represent available-for-sale investments (Note 6). The fair value of the available-for-sale investments is determined by the quoted prices (Level 1 inputs) in active markets for identical financial assets. There are no significant unobservable inputs used in measuring fair values of financial assets and liabilities.

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 2016, 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 2015. Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual profit or loss.

Changes in accounting policies. Several new amendments to standards apply for the first time in 2016. 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 three and six months ended 30 June 2016 and 2015 the Group had the following significant transactions with government-related entities:

	Three months ended 30 June		**Six months ended 30 June**	
	2016	**2015**	**2016**	**2015**
Transmission revenue	35,262	31,702	70,885	65,009
Electricity sales	4,230	1,516	8,838	2,139
Construction services	8,413	-	10,750	-
Connection services	46	77	73	124
Purchased electricity for production needs	(1,238)	(1,198)	(3,063)	(3,526)

(in millions of Russian Rouble unless otherwise stated)

Note 4. Balances and transactions with related parties (continued)

Significant balances with government-related entities are presented below:

	30 June 2016	31 December 2015
Cash and cash equivalents	38,026	15,454
Bank deposits	50	16,269
Long-term accounts receivable	17,693	14,229
Trade receivables (net of allowance for doubtful debtors of RR 6,059 million as at 30 June 2016 and RR 7,656 million as at 31 December 2015)	28,352	29,237
Other receivables (net of allowance for doubtful debtors of RR 710 million as at 30 June 2016 and RR 1,235 million as at 31 December 2015)	2,229	2,009
Available-for-sale investments	50,092	22,271
Advances to construction companies and suppliers of property, plant and equipment (included in CIP)	2,662	912
Accounts payable to shareholders of FGC UES	(16,983)	(6)
Non-current debt	(360)	(416)
Current debt	(109)	(104)
Accounts payable and accrued charges	(12,046)	(22,537)

As at 30 June 2016 the Group had long-term undrawn committed financing facilities with government-related banks of RR 105,000 million (as at 31 December 2015: RR 105,000 million) (Note 11). There were no short-term undrawn committed financing facilities with government-related banks as at 30 June 2016 and 31 December 2015.

Tax balances and charges are disclosed in Notes 12 and 14. Tax transactions are disclosed in the Condensed Consolidated Interim Statement of Profit and Loss and Other 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 three and six months ended 30 June 2016 and 2015 was as follows:

	Three months ended 30 June		Six months ended 30 June	
	2016	**2015**	**2016**	**2015**
Short-term compensation, including salary and bonuses	179	175	220	206
Post-employment benefits and other long-term benefits	5	4	9	8
Total	**184**	**179**	**229**	**214**

No remuneration was provided to the members of the Board of Directors for the six months ended 30 June 2016 and 2015.

(in millions of Russian Rouble unless otherwise stated)

Note 5. Property, plant and equipment

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Balance as at 1 January 2016	20,820	392,762	256,529	155,704	37,177	862,992
Additions	1	297	446	28,919	423	30,086
Transfers	47	2,235	2,753	(5,483)	448	-
Disposals	(195)	(98)	(1,346)	(1,300)	(150)	(3,089)
Balance as at 30 June 2016	20,673	395,196	258,382	177,840	37,898	889,989
Accumulated depreciation and impairment						
Balance as at 1 January 2016	(356)	(15,350)	(17,335)	(2,850)	(5,987)	(41,878)
Depreciation charge	(203)	(8,117)	(8,553)	-	(2,839)	(19,712)
Impairment loss	-	-	-	(1,965)	-	(1,965)
Disposals	4	9	39	-	32	84
Balance as at 30 June 2016	(555)	(23,458)	(25,849)	(4,815)	(8,794)	(63,471)
Net book value as at 1 January 2016	20,464	377,412	239,194	152,854	31,190	821,114
Net book value as at 30 June 2016	20,118	371,738	232,533	173,025	29,104	826,518

Appraisal value or cost						
Balance as at 1 January 2015	20,145	372,659	222,250	147,765	32,210	795,029
Additions	279	23	62	27,289	405	28,058
Transfers	145	1,379	2,402	(4,541)	615	-
Reclassification of assets held for sale	(1,264)	-	-	(3)	(2)	(1,269)
Disposals	(304)	(71)	(396)	(208)	(98)	(1,077)
Balance as at 30 June 2015	19,001	373,990	224,318	170,302	33,130	820,741
Accumulated depreciation and impairment						
Balance as at 1 January 2015	-	-	-	-	-	-
Depreciation charge	(203)	(7,481)	(8,734)	-	(3,227)	(19,645)
Impairment loss	-	-	-	(472)	-	(472)
Reclassification of assets held for sale	9	-	-	-	-	9
Disposals	3	1	21	-	24	49
Balance as at 30 June 2015	(191)	(7,480)	(8,713)	(472)	(3,203)	(20,059)
Net book value as at 1 January 2015	20,145	372,659	222,250	147,765	32,210	795,029
Net book value as at 30 June 2015	18,810	366,510	215,605	169,830	29,927	800,682

Note 6. Available-for-sale investments

	1 January 2016	Addition	Change in fair value	30 June 2016
PJSC "INTER RAO UES"	21,480	-	27,451	48,931
PJSC "Russian Grids"	680	-	369	1,049
Other	111	1	-	112
Total	**22,271**	**1**	**27,820**	**50,092**

	1 January 2015	Change in fair value	Impairment charge	30 June 2015
PJSC "INTER RAO UES"	13,759	9,805	-	23,564
PJSC "Russian Grids"	625	61	(26)	660
Total	**14,384**	**9,866**	**(26)**	**24,224**

(in millions of Russian Rouble unless otherwise stated)

Note 7. Cash and cash equivalents and bank deposits

	30 June 2016	31 December 2015
Cash at bank and in hand	41,607	7,518
Cash equivalents	11,447	20,658
Total cash and cash equivalents	**53,054**	**28,176**

Cash equivalents include short-term investments in certificates of deposit with original maturities of three months or less and contractual interest rate of 7.66-10.50% as at 30 June 2016 and 4.00-11.50% as at 31 December 2015. As at 30 June 2016 certificates of deposit include deposits denominated in foreign currency in the amount of RR 557 million (as at 31 December 2015 - RR 0 million).

Bank deposits

	Interest rate	30 June 2016	31 December 2015
OJSC "Bank “ROSSIYA”	10.80-10.85%	6,500	6,300
JSC “Alfa-Bank”	10.75%	2,000	7,700
PJSC “Bank Otkritie Financial Corporation”	0.58-10.95%	1,148	-
PJSC “Sberbank”	9.00%	50	93
PJSC “VTB”	10.50-11.01%	-	13,116
JSC “Gazprombank”	10.60-11.20%	-	3,060
Total bank deposits		**9,698**	**30,269**

As at 30 June 2016 bank deposits include deposits denominated in foreign currency in the amount of RR 1,148 million (as at 31 December 2015 - RR 0 million).

Fair value of bank deposits approximates their carrying value.

Note 8. Accounts receivable and prepayments

	30 June 2016	31 December 2015
Trade receivables		
(Net of allowance for doubtful debtors of RR 7,990 million as at 30 June 2016 and RR 14,232 million as at 31 December 2015)	45,945	37,904
Other receivables		
(Net of allowance for doubtful debtors of RR 13,750 million as at 30 June 2016 and RR 2,107 million as at 31 December 2015)	5,556	3,751
VAT recoverable	660	2,676
Advances to suppliers		
(Net of allowance for doubtful debtors of RR 1,974 million as at 30 June 2016 and RR 2,002 million as at 31 December 2015)	3,705	5,635
Tax prepayments	84	77
Total accounts receivable and prepayments	**55,950**	**50,043**

Trade and other receivables are not interest-bearing and are largely due in 30 to 90 days as at 30 June 2016 and 31 December 2015. Given the short period of the trade and other receivables repayment, the fair value of such receivables approximates their book value.

Long-term trade receivables in the total amount of RR 18,432 million as at 30 June 2016 (31 December 2015: RR 15,180 million) mainly relate to the new contracts of technological connection services provided that imply deferred inflow of cash and cash equivalents and to restructured receivable balances for transmission services that are expected to be settled within the period exceeding 12 months from the period end.

Long-term receivables relating to the new contracts of technological connection are paid in equal parts quarterly with an interest accrued on the actual outstanding balances at the rate of Russian Federation Central Bank key interest rate per annum.

Note 9. Equity

Share capital

	Number of shares issued and fully paid		Share Capital	
	30 June 2016	31 December 2015	30 June 2016	31 December 2015
Ordinary shares	1,274,665,323,063	1,274,665,323,063	637,333	637,333

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 2015: 4,719 million).

Dividends. At the Annual General Meeting in May 2016 the decision was approved to declare dividends for the year 2015 amounted to RR 16,976 million.

(in millions of Russian Rouble unless otherwise stated)

Note 10. Income tax

Income tax expense 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 2016 and 2015 most entities of the Group were subject to tax rates of 20 percent on taxable profit.

Profit before income tax for financial reporting purposes is reconciled to income tax expenses as follows:

	Three months ended 30 June		Six months ended 30 June	
	2016	**2015**	**2016**	**2015**
Profit before income tax	**31,041**	**10,964**	**51,297**	**21,716**
Theoretical income tax charge at the statutory tax rate of 20 percent	(6,208)	(2,193)	(10,259)	(4,343)
Tax effect of derecognition of subsidiary	2,767	-	2,767	-
Tax effect of items which are not deductible for taxation purposes	(410)	(692)	(516)	(614)
Movement in unrecognised deferred tax assets	1,252	150	1,574	583
Total income tax expense	**(2,599)**	**(2,735)**	**(6,434)**	**(4,374)**

Note 11. Non-current debt

	Effective interest rate	Due	30 June 2016	31 December 2015
Certified interest-bearing non-convertible bearer bonds:				
with fixed rates	7.5-8.75%	2019-2028	99,388	109,493
with variable rates	CPI+1-2.5%	2022-2050	152,049	153,586
Loan participation notes (LPNs)	8.45%	2019	17,943	17,943
Finance lease liabilities	9.50%	2018	469	520
Total debt			**269,849**	**281,542**
Less: current portion of non-current bonds and LPNs			(29,674)	(31,362)
Less: current portion of finance lease liabilities			(109)	(104)
Total non-current debt			**240,066**	**250,076**

All debt instruments are denominated in Russian Rouble.

Reconciliation between carrying and fair values of financial liabilities is presented below.

		30 June 2016		31 December 2015	
	Level	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Non-convertible bearer bonds with fixed rates and loan participation notes	1	110,788	117,231	117,161	127,337
Non-convertible bearer bonds with variable rates	1	9,990	10,624	10,281	10,722
Total debt		**120,778**	**127,855**	**127,442**	**138,059**

Other non-current debt with floating rates classified into fair value hierarchy level 3 represent non-quoted non-convertible bearer bonds with floating rate lined to inflation with a premium of 1-2.5%, which is a unique instrument with specific market. Hence, the management believes carrying amount of these instruments approximates its fair value.

As at 30 June 2016 the Group had long-term undrawn committed financing facilities of RR 152,500 million (as at 31 December 2015: RR 152,500 million) which could be used for the general purposes of the Group.

Note 12. Accounts payable and accrued charges

	30 June 2016	31 December 2015
Trade payables	7,578	21,949
Accounts payable to construction companies and suppliers of property, plant and equipment	18,950	29,140
Advances received	16,021	12,936
Provision for legal claims	1,241	948
Accounts payable to employees	2,368	2,242
Taxes other than on income payable	5,863	2,169
Other creditors and accrued liabilities	1,638	1,652
Total accounts payable and accrued charges	**53,659**	**71,036**

(in millions of Russian Rouble unless otherwise stated)

Note 13. Revenue

	Three months ended 30 June		Six months ended 30 June	
	2016	**2015**	**2016**	**2015**
Transmission fee	40,966	38,128	82,567	77,138
Construction services	9,525	-	12,478	-
Electricity sales	6,038	1,954	11,782	4,659
Connection services	888	173	2,558	431
Other revenues	629	652	1,201	1,247
Total revenues	**58,046**	**40,907**	**110,586**	**83,475**

Note 14. Operating expenses

	Three months ended 30 June		Six months ended 30 June	
	2016	**2015**	**2016**	**2015**
Depreciation of property, plant and equipment	9,927	10,002	19,712	19,645
Employee benefit expenses and payroll taxes	6,958	7,009	13,145	13,902
Purchased electricity	5,199	2,818	11,828	6,713
Subcontract works for construction contracts	5,098	-	7,680	-
Materials for construction contracts	3,551	-	3,607	-
Property tax	2,325	1,848	4,677	3,763
Fuel for mobile gas-turbine electricity plants	968	12	4,527	49
Electricity transit	644	1,716	1,215	3,568
Business trips and transportation expenses	461	514	859	876
Security services	365	388	721	805
Rent	358	298	667	575
Amortisation of intangible assets	356	275	687	747
Accrual / (reversal) of allowance for doubtful debtors	118	2,611	(2,626)	6,719
Other expenses	2,588	2,423	3,718	4,941
Total operating expenses	**38,916**	**29,914**	**70,417**	**62,303**

Note 15. Finance income

	Three months ended 30 June		Six months ended 30 June	
	2016	**2015**	**2016**	**2015**
Interest income	1,652	1,724	3,415	3,734
Foreign currency exchange differences	18	58	40	118
Dividends	246	21	246	21
Other finance income	11	(6)	24	3
Total finance income	**1,927**	**1,797**	**3,725**	**3,876**

Note 16. Finance costs

	Three months ended 30 June		Six months ended 30 June	
	2016	**2015**	**2016**	**2015**
Interest expense	6,419	8,329	14,723	14,265
Net interest on the defined benefit obligations	150	190	322	381
Foreign currency exchange differences	47	45	102	127
Total finance cost	**6,616**	**8,564**	**15,147**	**14,773**
Less: capitalised interest expenses	(4,375)	(6,869)	(10,250)	(10,736)
Total finance cost recognised in profit or loss	**2,241**	**1,695**	**4,897**	**4,037**

(in millions of Russian Rouble unless otherwise stated)

Note 17. Earnings per ordinary share for profit attributable to shareholders of FGC UES

	Three months ended 30 June		Six months ended 30 June	
	2016	**2015**	**2016**	**2015**
Weighted average number of ordinary shares (millions of shares)	1,260,938	1,260,938	1,260,938	1,260,938
Profit attributable to shareholders of FGC UES (millions of RR)	28,531	8,601	45,057	17,692
Weighted average earning per share – basic and diluted (in RR)	**0.023**	**0.007**	**0.036**	**0.014**

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

Note 18. 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 2016 in comparison with those described in the Group’s consolidated financial statements for the year ended 31 December 2015 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.

During 2012-2016 OJSC “Nurenergo” was involved in a number of litigations aiming to commence a bankruptcy procedure in respect of subsidiary. On 29 June 2016 the Commercial Court of the Republic of Chechnya declared the company bankrupt.

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 2016 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 223,659 million as at 30 June 2016 (as at 31 December 2015: RR 233,101 million) including VAT. These amounts include accounts payable to construction companies and suppliers of property, plant and equipment in the amount of RR 18,950 million as at 30 June 2016 (as at 31 December 2015: RR 29,140 million) (Note 12).

(in millions of Russian Rouble unless otherwise stated)

Note 19. 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 transmissions 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			
	Three months ended 30 June		**Six months ended 30 June**	
	2016	**2015**	**2016**	**2015**
Revenue from external customers	41,911	39,134	85,221	78,915
Intercompany revenue	371	68	690	140
Total revenue	**42,282**	**39,202**	**85,911**	**79,055**
Segment profit for the period	5,875	277	16,080	858

	30 June 2016	**31 December 2015**
Total reportable segment assets (RAR)	1,286,859	1,287,303
Total reportable segment liabilities (RAR)	433,867	433,413

Statements for the three and six months ended 30 June 2016 and 2015 is presented below:

	Three months ended 30 June		**Six months ended 30 June**	
	2016	**2015**	**2016**	**2015**
Total revenue from segment (RAR)	**42,282**	**39,202**	**85,911**	**79,055**
Reclassification between revenue and other income	283	357	216	356
Other revenue	15,932	1,769	24,954	4,809
Elimination of intercompany revenue	(371)	(68)	(690)	(140)
Other adjustments	(80)	(353)	195	(605)
Total revenue (IFRS)	**58,046**	**40,907**	**110,586**	**83,475**

(in millions of Russian Rouble unless otherwise stated)

Note 19. Segment information (continued)

A reconciliation of the reportable segment’s profit to the Condensed Consolidated Interim Financial Statements for the three and six months ended 30 June 2016 and 2015 is presented below:

	Three months ended 30 June		Six months ended 30 June	
	2016	**2015**	**2016**	**2015**
Profit for the period (RAR)	**5,875**	**277**	**16,080**	**858**
Property, plant and equipment				
Adjustment to the carrying value of property, plant and equipment	10,343	11,252	20,301	20,954
Impairment / (reversal of impairment) of property, plant and equipment	771	(2,616)	3,445	(1,173)
Financial instruments				
Impairment of available-for-sale investments	-	(26)	-	(26)
Discounting of promissory notes	21	32	21	60
Reversal of impairment of promissory notes	-	(8)	-	-
Consolidation				
Reversal of adjustment to the value of investment in subsidiaries	(248)	-	(248)	-
Reversal of adjustments to the carrying value of intercompany promissory notes	(3,344)	(583)	(6,133)	(2,748)
Reversal of re-measurement of treasury shares	4	-	4	-
Other				
Adjustment to provision for legal claims	164	58	(293)	-
Adjustment to allowance for doubtful debtors	1,981	2,523	(397)	(297)
Accrual of retirement benefit obligations	45	(160)	72	(351)
Write-off of research and development to expenses	46	66	46	66
Share of result of associates	(286)	(1)	(282)	(14)
Deferred tax adjustment	(1,333)	(1,916)	(655)	1,067
Other adjustments	797	(422)	(503)	(893)
Gain on derecognition of subsidiary	11,812	-	11,812	-
Non-segmental other operating profit / (loss)	1,794	(247)	1,593	(161)
Profit for the period (IFRS)	**28,442**	**8,229**	**44,863**	**17,342**

Information on revenue for separate services and products of the Group is presented in Note 13. 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.
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.

Note 20. Derecognition of subsidiary

On 30 June 2016 the Group derecognised its investment in OJSC “Nurenergo” as the Group lost control over the entity (Note 2).

The derecognition of the subsidiary had the following effect on the Group’s assets and liabilities at the date of derecognition:

	Carrying amount at date of disposal
Negative net assets and liabilities of subsidiary	15,006
Impairment of intercompany accounts receivable and loans given	(2,020)
Non-controlling interest	(1,174)
Gain on derecognition of subsidiary	**11,812**