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PJSC «ROSSETI» and its subsidiaries

**Consolidated Interim Condensed Financial Statements prepared in
accordance with IFRS**

As at and for the six month ended 30 June 2016

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REPORT ON REVIEW OF CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

To the Shareholders and the Board of Directors of «ROSSETI», Public Joint-Stock Company

Audited entity:

«ROSSETI», Public Joint-Stock Company (abbreviated name – «ROSSETI», PJSC).

Location: Moscow, Russia;

Primary state registration number – 1087760000019.

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 «ROSSETI» dated 30.06.2016 on appointment of RSM RUS Ltd. as the PJSC «ROSSETI» auditor and Contract for the audit of the 2016 financial statements of PJSC «ROSSETI» No. 161a063 dated 23.08.2016, we have reviewed the accompanying consolidated interim condensed financial statements of «ROSSETI», Public Joint-Stock Company 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 statements of comprehensive income, cash flows and changes in equity for the six months then ended, and the main accounting policies and other explanatory notes.

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

Scope of Review

We conducted our review in accordance with:

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

A review of consolidated interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and 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 «ROSSETI», Public Joint-Stock Company 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


Group of companies "ROSSETI"
Consolidated Interim Condensed Statement of Profit and Loss and Other Comprehensive Income
for the six months ended 30 June 2016 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Notes	Six months ended 30 June 2016 Unaudited	Six months ended 30 June 2015 Unaudited
Revenue	6	415,481	351,895
Operating expenses	8	(357,370)	(313,088)
Other income, net		18,309	4,476
Results from operating activities		76,420	43,283
Finance income	9	7,580	8,510
Finance costs	9	(19,046)	(18,629)
Net finance costs		(11,466)	(10,119)
Share of (loss)/profit of associates and joint ventures (net of income tax)		(73)	9
Profit before income tax		64,881	33,173
Income tax expense		(11,077)	(9,081)
Profit for the period		53,804	24,092
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of available-for-sale financial assets		27,462	9,943
Allowance for foreign currency translation differences		(3)	(322)
Income tax related to items that may be reclassified subsequently to profit or loss		(5,492)	(1,985)
Total items that may be reclassified subsequently to profit or loss		21,967	7,636
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurements of the defined benefit liability		(2,811)	(2,196)
Income tax related to items that will never be reclassified subsequently to profit or loss		396	81
Total items that will not be reclassified subsequently to loss or profit		(2,415)	(2,115)
Other comprehensive income for the period, net of income tax		19,552	5,521
Total comprehensive income for the period		73,356	29,613
Profit attributable to:			
Owners of the Company		42,334	18,127
Non-controlling interest		11,470	5,965
Total comprehensive income attributable to:			
Owners of the Company		58,356	22,720
Non-controlling interest		15,000	6,893
Earnings per share			
Basic and diluted earnings per ordinary share (in RUB)	15	0.22	0.11

These consolidated interim condensed financial statements were approved by management on 24 August 2016 and were signed on its behalf by:


 General Director
 O.M. Budargin




 Director for accounting
 and reporting – Chief Accountant
 V.V. Shchukin

Group of companies "ROSSETI"
Consolidated Interim Condensed Statement of Financial Position as at 30 June 2016 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Notes	30 June 2016 Unaudited	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	10	1,745,854	1,734,044
Intangible assets	11	17,031	18,532
Investments in associates and joint ventures		1,413	1,489
Non-current accounts receivable		16,945	16,572
Other investments and financial assets	12	59,625	31,928
Deferred tax assets		8,895	8,579
Total non-current assets		1,849,763	1,811,144
Current assets			
Inventories		37,033	33,921
Other investments and financial assets	12	23,688	36,777
Current income tax prepayments		8,945	4,201
Trade and other receivables		160,509	162,624
Cash and cash equivalents	13	102,816	97,090
Total current assets		332,991	334,613
Total assets		2,182,754	2,145,757
EQUITY AND LIABILITIES			
Equity			
	14		
Share capital		163,154	163,154
Share premium		212,978	212,978
Treasury shares		(2,713)	(2,713)
Reserve for issue of shares		34,917	33,473
Other reserves		13,922	(2,100)
Retained earnings		489,136	448,120
Total equity attributable to equity holders of the Company		911,394	852,912
Non-controlling interest		322,246	315,983
Total equity		1,233,640	1,168,895
Non-current liabilities			
Loans and borrowings	16	448,589	465,439
Trade and other payables		25,244	22,075
Employee benefits		32,868	29,473
Deferred tax liabilities		66,899	60,155
Total non-current liabilities		573,600	577,142
Current liabilities			
Loans and borrowings	16	110,763	118,832
Trade and other payables		252,560	267,972
Provisions		11,196	11,421
Current income tax liabilities		995	1,495
Total current liabilities		375,514	399,720
Total liabilities		949,114	976,862
Total equity and liabilities		2,182,754	2,145,757

Group of companies "ROSSETI"
Consolidated Interim Condensed Statement of Cash Flows for the six months ended 30 June 2016 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Note	Six months ended 30 June 2016 Unaudited	Six months ended 30 June 2015 Unaudited
OPERATING ACTIVITIES			
Profit for the period		53,804	24,092
<i>Adjustments for:</i>			
Depreciation and amortization of property, plant and equipment and intangible assets	8	57,307	56,267
Finance costs	9	19,046	18,629
Finance income	9	(7,580)	(8,510)
(Profit)/loss on disposal of property, plant and equipment		(387)	337
Share of loss/(profit) of associates and joint ventures, net of income tax		73	(9)
Impairment of accounts receivable		3,849	8,132
Proceeds from subsidiary disposal	7	(12,613)	-
Non-cash receipt of property, plant and equipment		(1,121)	(861)
Non-cash settlement of technical connection agreements		(685)	(462)
Other non-cash transactions		(462)	89
Income tax expense		11,077	9,081
Operating profit before changes in working capital		122,308	106,785
Change in trade and other receivables (net of allowance for impairment)		(4,319)	3,361
Change in inventories (net of allowance for impairment)		(3,147)	(5,202)
Change in trade and other payables		10,051	7,957
Change in employee benefit liabilities		(713)	(844)
Change in provisions		(224)	556
Change in financial assets related to employee benefit fund		(295)	69
Cash flows from operating activities before income tax and interest paid		123,661	112,682
Income taxes paid		(15,075)	(6,639)
Interest paid		(32,175)	(27,960)
Net cash flows from operating activities		76,411	78,083
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(71,774)	(85,374)
Proceeds from sale of property, plant and equipment		2,868	1,697
Acquisition of investments and placement of bank deposits		(18,955)	(50,816)
Proceeds from sale of investments and withdrawal of bank deposits		32,197	27,354
Interest received		6,522	8,319
Dividends received		248	22
Net cash flows used in investing activities		(48,894)	(98,798)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		81,824	76,272
Repayment of loans and borrowings		(104,913)	(44,694)
Proceeds from share premium		1,444	-
Dividends paid		(48)	(8)
Payment of finance lease liabilities		(98)	(175)
Net cash flows from financing activities		(21,791)	31,395
Net increase in cash and cash equivalents		5,726	10,680
Cash and cash equivalents at the beginning of the period		97,090	82,576
Cash and cash equivalents at the end of the period		102,816	93,256

	Attributable to equity holders of the Company							
	Share capital	Share premium	Treasury shares	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2015	163,154	212,978	(2,725)	(3,981)	383,554	752,980	285,824	1,038,804
Profit for the period	-	-	-	-	18,127	18,127	5,965	24,092
Other comprehensive income	-	-	-	6,099	-	6,099	1,326	7,425
Income tax on other comprehensive income	-	-	-	(1,506)	-	(1,506)	(398)	(1,904)
Total comprehensive income for the period	-	-	-	4,593	18,127	22,720	6,893	29,613
Transactions with owners of the Company								
Contributions and distributions	-	-	-	-	-	-	-	-
Dividends (unaudited)	-	-	-	-	-	-	(2,050)	(2,050)
Effect of employee share options	-	-	-	-	1	1	-	1
Total contributions and distributions	-	-	-	-	1	1	(2,050)	(2,049)
Total transactions with owners of the Company	-	-	-	-	1	1	(2,050)	(2,049)
Balance at 30 June 2015 (unaudited)	<u>163,154</u>	<u>212,978</u>	<u>(2,725)</u>	<u>612</u>	<u>401,682</u>	<u>775,701</u>	<u>290,667</u>	<u>1,066,368</u>

Group of companies "ROSSETI"
Consolidated Interim Condensed Statement of Changes in Equity for the six months ended 30 June 2016 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital	Share premium	Treasury shares	Reserve for issue of shares	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2016	163,154	212,978	(2,713)	33,473	(2,100)	448,120	852,912	315,983	1,168,895
Profit for the period	-	-	-	-	-	42,334	42,334	11,470	53,804
Other comprehensive income	-	-	-	-	20,177	-	20,177	4,471	24,648
Related income tax on other comprehensive income	-	-	-	-	(4,155)	-	(4,155)	(941)	(5,096)
Total comprehensive income for the period	-	-	-	-	16,022	42,334	58,356	15,000	73,356
Transactions with owners of the Company									
Contributions and distributions	-	-	-	1,444	-	-	1,444	-	1,444
Issue of shares (Note 14)	-	-	-	-	-	(1,452)	(1,452)	(8,603)	(10,055)
Dividends (unaudited) (Note 14)	-	-	-	1,444	-	-	(8)	(8,603)	(8,611)
Total contributions and distributions	-	-	-	1,444	-	-	(8)	-	-
Changes in ownership interests in subsidiaries									
Shares issued by subsidiaries (Note 14)	-	-	-	-	-	134	134	(134)	-
Total transactions with owners of the Company	-	-	-	1,444	-	(1,318)	126	(8,737)	(8,611)
Balance at 30 June 2016 (unaudited)	163,154	212,978	(2,713)	34,917	13,922	489,136	911,394	322,246	1,233,640

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

1. Background

(a) The Group organisational structure and its operations

Open Joint Stock Company "Interregional Distribution Grid Companies Holding" (hereinafter referred to as JSC "IDGC Holding") was established on 1 July 2008 in accordance with the resolution of the Extraordinary General Meeting of the Shareholders of the Unified Energy System of Russia (hereinafter referred to as "RAO UES") dated 26 October 2007 by the means of spin-off from RAO UES.

On 23 March 2013 at an Extraordinary General Meeting of Shareholders of JSC IDGC Holding the decision was made to amend the Charter of JSC "IDGC Holding", under which it was renamed JSC "Russian Grids". On 4 April 2013 the respective changes to the Charter of JSC "IDGC Holding" were registered by the Interregional inspectorate of Federal Tax Service №46 of Moscow.

Due to changes in the Civil Code of the Russian Federation at the Annual General Shareholders' Meeting held on 30 June 2015 the changes of organizational and legal form the Company's Charter were approved. JSC Russian Grids was renamed into PJSC "ROSSETI" (hereinafter referred to as "the Company" or PJSC "ROSSETI")

The ordinary and preference shares of the Company are traded on the MICEX-RTS Stock Exchange. Also GDRs of the Company are listed on the London Stock Exchange.

The Company's registered office is located at 4 Belovezhskaya Street, Moscow, Russia, 121353.

The group of companies "ROSSETI" (hereinafter referred to as "the Group") comprises PJSC "ROSSETI" and its subsidiaries presented in Note 4.

The Group's principal activities are provision of services for transmission and distribution of electricity for power grids, as well as the provision of services for technological connection of consumers to the network. The Group's power distribution companies sell electricity.

(b) Russian 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 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.

(c) Relations with state and current regulations

The Group's strategic business units (see Note 5) are regional natural monopolies. The Russian Government directly affects the Group's operations through tariffs regulation.

In accordance with Russian legislation the Group's tariffs are regulated by executive authorities of subject of the Russian Federation in the field of state regulation of tariffs and Federal Antimonopoly Service.

1. Background (continued)

(c) Relations with state and current regulations (continued)

As of June 30, 2016 the additional issue of shares of PJSC "ROSSETI" was completed (see Note 14), in which the share of Russian Federation in the ordinary voting shares increased to 88.75 %, in the authorized capital of up to 87.90% (31 December 2015 the share of Russian Federation in the ordinary voting shares were 86.32%, in the share capital 85.31%). Notification of the results of the additional issue of securities was granted registration on June 29, 2016, the share capital of the Company was registered on 17 August 2016. The Russian Government, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Company. The Russian Government supports the Group due to its strategic position for economy of the Russian Federation. The Group's customer base includes a large number of state-controlled entities.

2. Basis of preparation

(a) Statement of compliance

These consolidated interim condensed financial statements for the six month ended 30 June 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The consolidated interim condensed financial statements do not include all information and disclosures required in annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statement as at 31 December 2015.

(b) Use of professional judgements and estimates

The preparation of consolidated interim condensed financial statements in conformity with IFRS requires management to make a number of professional judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these consolidated interim condensed financial statements 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 of and for the year 2015.

3. Significant accounting policies

The accounting policies adopted in the preparation of the consolidated interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015.

The following new and amended standards and interpretations became effective for the Group from 1 January 2016:

- Amendments to IAS 1, *Presentation of Financial Statements* (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements. The adoption of the amendments had no material impact on the Group's consolidated interim condensed financial statements.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017, and which the Group has not early adopted:

- Amendments to IAS 7, *Statement of Cash Flows* (issued in January 2016 and effective for annual periods on or after 1 January 2017, early adoption is permitted). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.
- IFRS 16, *Leases* (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The standard requires lessees to recognize assets and liabilities for most leases. For lessors, there is a minor change to the existing accounting treatment in IAS 17, *Leases*. Early application is permitted, provided the new revenue standard, IFRS 15, *Revenue from Contracts with Customers*, has been applied, or is applied at the same date as IFRS 16.
- Amendments to IFRS 10, *Consolidated financial statements*, and IAS 28, *Investments in associates and joint ventures* (issued in September 2014, in November 2015 the effective date was postponed indefinitely). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments stipulate that a full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.
- IFRS 9, *Financial Instruments: Classification and Measurement* (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018, early adoption is permitted). The standard introduces new requirements for classification and measurement of financial instruments, impairment, and hedge accounting.

3. Significant accounting policies (continued)

- IFRS 15, *Revenue from Contracts with Customers* (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018, early adoption is permitted). The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any discounts on the contract price must generally be allocated to the separate elements of contracts with customers. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

The Group is considering the implications of the new standards and amendments to the existing ones for the Group's consolidated financial statements, and the timing of their adoption by the Group.

Certain comparative balances have been reclassified to conform with the current period presentation. All reclassifications are immaterial.

4. Significant subsidiaries

		30 June 2016	31 December
		Unaudited	2015
	Country of	Ownership/voting,	Ownership/voting,
	incorporation	%	%
PJSC "FGC UES"	Russian Federation	80.15	80.15
PJSC "MOESK"	Russian Federation	50.90	50.90
JSC "Tyumenenergo"	Russian Federation	100.00	100.00
PJSC "Lenenergo"	Russian Federation	68.01/68.75	68.01/68.75
PJSC "IDGC of Centre"	Russian Federation	50.23	50.23
JSC "IDGC of Urals"	Russian Federation	51.52	51.52
PJSC "IDGC of Centre and Volga region"	Russian Federation	50.40	50.40
PJSC "Kubanenergo"	Russian Federation	92.24	92.24
PJSC "IDGC of Siberia"	Russian Federation	57.84	55.59
PJSC "IDGC of Volga"	Russian Federation	68.08	67.75
PJSC "IDGC of North-West"	Russian Federation	55.38	55.38
PJSC "IDGC of North Caucasus"	Russian Federation	93.20	93.20
JSC "Chechenenergo"	Russian Federation	72.66	72.66
PSC "IDGC of South"	Russian Federation	51.66	51.66
PJSC "TDC"	Russian Federation	85.77/94.58	85.77/94.58
JSC "Yantarenergo"	Russian Federation	100.00	100.00
JSC "Karachaevo-Cherkesskenergo"	Russian Federation	100.00	100.00
JSC "Kalmenergosbyt"	Russian Federation	100.00	100.00
PJSC "Kabbalkenergo"	Russian Federation	65.27	65.27
JSC "Tyvaenergosbyt"	Russian Federation	100.00	100.00
PJSC "Sevkavkazenergo"	Russian Federation	55.94	55.94
PJSC "Dagestan Power Sales Company"	Russian Federation	51.00	51.00

Deconsolidation of a subsidiary

29 June 2016 by the decision of Arbitration court of the Chechen Republic by a subsidiary of the Group OJSC "Nurenergo" (share of the Group's ownership to 100%) has been declared bankrupt, bankruptcy proceedings and appointed the bankruptcy trustee. In accordance with the Federal law "On insolvency (bankruptcy)", with the announcement of the debtor bankrupt, the powers of all management bodies of the debtor are terminated and passed to the bankruptcy Trustee. Thus, the Group lost its ability to direct the relevant activities of the subsidiary and accordingly lost control over OJSC "Nurenergo". As a result, as at 30 June 2016, the Group derecognized the assets and liabilities of OJSC "Nurenergo" and recognized income from deconsolidation of the subsidiaries in the amount of RUB 12,613 million within "Other income, net" in the Consolidated statement of profit or loss and other comprehensive income. The negative value of the identifiable net assets of OJSC "Nurenergo" at the date of disposal was RUB 15,006 million.

5. Operating segments

The Group has fourteen reportable segments, as described below, which are the Group's strategic business units. Each strategic business unit offers electricity distribution services including technological connection services in separate geographical regions of the Russian Federation and is managed separately.

The "other" segment includes several operating segments such as electricity sales, rent services and repair and maintenance services. Unallocated items mainly comprise assets and balances of the Group's headquarter which exercises management activity on remuneration basis.

The Group's management responsible for operating decisions assesses the performance, assets and liabilities of operating segments based on internal management reports prepared based on the data formed in accordance with Russian Accounting Standards. The performance of each reportable segment is measured based on earnings before interest expense, income tax and depreciation and amortization (EBITDA).

EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of the Group's operating segments. The reconciliation of items of reportable segments to similar items in these consolidated interim condensed financial statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Information regarding the results of each reportable segments is included below.

5. Operating segments (continued)

(i) Information about reportable segments (unaudited)

For the six months ended 30 June 2016:

	IDGC											Yantar- energo	IDGC Centre	MOESK	FGC UES	Other	Total
	Siberia and TDC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	IDGC Kuban- energo	IDGC North Caucasus	IDGC Centre and Privolzhye	IDGC North-West	Lenenergo	Lenenergo						
Revenue from external customers	25,905	27,839	28,002	25,380	14,791	19,044	5,210	36,797	18,733	26,053	519	41,366	66,510	22,262	54,806	413,217	
Inter-segment revenue	5	5	3,117	1	230	1	2,229	12	1,796	1,847	1,893	2	5	63,666	15,780	90,589	
Total segment revenue	25,910	27,844	31,119	25,381	15,021	19,045	7,439	36,809	20,529	27,900	2,412	41,368	66,515	85,928	70,586	503,806	
Including																	
Electricity	25,594	27,518	30,463	25,202	14,863	17,911	6,668	36,466	20,053	26,318	2,213	40,320	62,447	82,833	9,020	427,889	
Transmission	202	221	451	90	76	1,093	73	232	142	1,424	145	600	3,599	2,233	258	10,839	
Connection services	-	-	-	-	-	-	315	-	-	-	-	-	-	-	40,638	40,953	
Electricity sales	114	105	205	89	82	41	383	111	334	158	54	448	469	862	20,670	24,125	
Other revenue	1,837	5,663	4,287	3,915	1,919	3,482	650	5,861	3,270	10,324	451	8,313	17,230	68,636	630	136,468	
EBITDA																	

For the six months ended 30 June 2015:

	IDGC											Yantar- energo	IDGC Centre	MOESK	FGC UES	Other	Total
	Siberia and TDC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	IDGC Kuban- energo	IDGC North Caucasus	IDGC Centre and Privolzhye	IDGC North-West	Lenenergo	Lenenergo						
Revenue from external customers	22,795	25,445	25,760	22,642	14,175	15,357	3,303	32,382	18,041	19,894	450	38,865	60,530	19,245	34,324	353,208	
Inter-segment revenue	486	4	2,740	2	187	2	3,778	35	1,556	63	1,645	18	12	59,815	9,146	79,489	
Total segment revenue	23,281	25,449	28,500	22,644	14,362	15,359	7,081	32,417	19,597	19,957	2,095	38,883	60,542	79,060	43,470	432,697	
Including																	
Electricity	23,046	25,149	27,826	22,399	14,179	15,121	6,692	32,053	18,077	18,575	1,940	38,032	55,944	77,744	4,958	381,735	
Transmission	114	179	443	151	93	200	19	231	181	1,301	104	461	4,087	430	742	8,736	
Connection services	-	-	-	-	-	-	-	-	947	-	-	-	-	-	31,518	32,465	
Electricity sales	121	121	231	94	90	38	370	133	392	81	51	390	511	886	6,252	9,761	
Other revenue	2,136	6,413	3,209	3,223	3,349	3,013	(1,465)	5,362	3,482	1,206	146	7,684	19,573	49,328	(1,555)	105,104	
EBITDA																	

5. Operating segments (continued)

(i) Information about reportable segments (unaudited) (continued)

As at 30 June 2016:

	IDGC Siberia and TDC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	Kuban- energo	IDGC		IDGC Centre and Privolzhye	North-West Lenenergo	Yantar- energo	IDGC Centre	MOESK	FGC UES	Other	Total
							North Caucasus	North-West Lenenergo								
Segment assets Including property, plant and equipment and construction-in- progress	74,258	140,257	62,574	62,205	43,116	64,426	33,855	89,427	58,425	185,228	11,171	120,018	329,905	1,268,968	157,914	2,701,747
	50,883	126,395	49,794	51,447	27,982	53,736	24,065	72,416	40,230	132,701	6,982	94,857	287,180	1,069,063	78,886	2,166,617

As at 31 December 2015:

	IDGC Siberia and TDC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	Kuban- energo	IDGC		IDGC Centre and Privolzhye	North-West Lenenergo	Yantar- energo	IDGC Centre	MOESK	FGC UES	Other	Total
							North Caucasus	North-West Lenenergo								
Segment assets Including property, plant and equipment and construction-in- progress	73,311	141,777	65,586	63,942	43,012	64,318	33,490	91,263	59,607	194,683	9,692	117,869	332,750	1,268,301	153,313	2,712,914
	51,320	127,775	50,038	53,274	28,897	53,710	24,955	72,258	40,832	134,607	6,374	95,289	288,332	1,083,487	76,699	2,187,847

5. Operating segments (continued)**(ii) Reconciliations of reportable segment EBITDA**

Reconciliation of reportable segment EBITDA is presented below:

	Six months ended 30 June 2016 Unaudited	Six months ended 30 June 2015 Unaudited
EBITDA of reportable segments	136,468	105,104
Adjustment for receivables' impairment allowance	(3,153)	4,058
Other provisions	1,019	747
Adjustments for financial lease	166	276
Adjustment for disposal of property, plant and equipment	(1,285)	58
Discounting of financial instruments	(283)	45
Adjustment for inventories valuation	(47)	(7)
Accrued salaries and wages	39	(49)
Assets related to employee benefit fund	295	(69)
Impairment of available-for-sale investments	-	(85)
Adjustments for write-off of other current and non-current assets	(10)	(208)
Retirement benefit obligations recognition	(584)	(607)
Adjustment for promissory notes impairment	(6,133)	(2,748)
Derecognition of subsidiary	12,613	-
Other adjustments	(2,041)	772
Unallocated	2,364	(1,166)
	139,428	106,121
Depreciation, amortization and impairment	(57,307)	(56,267)
Interest expenses on financial liabilities measured at amortised cost	(17,184)	(16,664)
Interest expenses on finance lease liabilities	(56)	(17)
Income tax expense	(11,077)	(9,081)
Profit for the period per consolidated interim condensed statement of profit and loss and other comprehensive income	53,804	24,092

6. Revenue

	Six months ended 30 June 2016 Unaudited	Six months ended 30 June 2015 Unaudited
Electricity transmission	348,489	309,891
Sales of electricity and capacity	37,255	28,283
Technological connection services	11,754	8,473
Other revenues	17,983	5,248
	415,481	351,895

Other revenues are comprised of rental income, repair and maintenance services, etc.

7. Other income, net

	Six months ended 30 June 2016 Unaudited	Six months ended 30 June 2015 Unaudited
Income from identified non-contracted electricity consumption	482	785
Income in the form of fines on commercial contracts	3,689	3,207
Gain on deconsolidation of subsidiaries	12,613	-
Net other income/expense	1,525	484
	18,309	4,476

Net other income/expense includes profit/loss on insurance reimbursement, on disposal of fixed assets and other items.

8. Operating expenses

	Six months ended 30 June 2016 Unaudited	Six months ended 30 June 2015 Unaudited
Personnel costs	85,281	82,592
Depreciation and amortization	57,307	56,267
Impairment of property, plant and equipment	-	-
<i>Material expenses, including:</i>		
Electricity for compensation of losses	54,764	45,369
Electricity for sale	21,036	16,047
Purchased electricity and heat power for own needs	2,185	1,885
Other material costs	18,785	9,589
<i>Production work and services, including:</i>		
Electricity transmission services	64,571	56,280
Repairs, maintenance services	4,654	4,376
Other works and industrial services	9,694	1,223
Taxes and levies other than income tax	11,095	8,730
Rent	3,392	3,060
Insurance	1,079	1,243
<i>Other third-party services, including:</i>		
Communication services	1,320	1,307
Security services	2,200	2,249
Consulting, legal and audit services	793	951
Software costs and servicing	1,022	1,058
Transportation services	1,044	1,217
Other services	3,230	3,449
Impairment of receivables	3,849	8,140
Provisions	3,086	4,549
Other expenses	6,983	3,507
	357,370	313,088

9. Finance income and costs

	Six months ended 30 June 2016 Unaudited	Six months ended 30 June 2015 Unaudited
Recognised in profit or loss		
<i>Finance income</i>		
Interest income on loans, bank deposits and promissory notes	7,086	8,160
Gain on disposal of financial assets	1	14
Other finance income	493	336
	7,580	8,510
<i>Finance costs</i>		
Interest expenses on financial liabilities measured at amortized cost	(17,184)	(16,664)
Interest expense on finance lease liabilities	(56)	(17)
Impairment loss on available-for-sale and held-to-maturity financial assets	-	(267)
Other finance costs	(1,806)	(1,681)
	(19,046)	(18,629)

10. Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Cost and deemed cost At 1 January 2015	220,258	1,043,536	802,014	246,497	390,399	1,702,704
Reclassification between groups	1,153	(1,097)	1,775	(1,831)	-	-
Additions	373	577	234	1,404	63,512	66,100
Transfer	2,232	13,580	9,971	3,956	(29,739)	-
Disposals	(369)	(232)	(874)	(681)	(1,113)	(3,269)
At 30 June 2015 (unaudited)	223,647	1,056,364	813,120	249,345	423,059	2,765,535
Depreciation and impairment						
At 1 January 2015	(60,186)	(434,396)	(535,125)	(133,369)	(78,042)	(1,059,118)
Reclassification between groups	25	(587)	(821)	(27)	1,410	-
Depreciation charge	(4,601)	(20,109)	(18,471)	(11,625)	-	(54,806)
Impairment	-	-	-	-	-	-
Disposals	41	126	731	482	81	1,461
At 30 June 2015 (unaudited)	(64,721)	(454,966)	(371,686)	(144,539)	(76,551)	(1,112,463)
Net book value						
At 1 January 2015	160,072	609,140	448,889	113,128	312,357	1,643,586
At 30 June 2015 (unaudited)	158,926	601,398	441,434	104,806	346,508	1,653,072
Cost or deemed cost						
Ft 1 January 2016	237,648	1,138,556	885,119	266,680	352,607	2,880,610
Reclassification between groups	18	29	(169)	122	-	-
Additions	234	845	542	1,740	66,745	70,106
Transfer between groups	1,969	12,719	8,153	2,251	(25,092)	-
Disposals	(245)	(423)	(1,242)	(824)	(2,832)	(5,566)
Balance at 30 June 2016 (unaudited)	239,624	1,151,726	892,403	269,969	391,428	2,945,150
Depreciation and impairment						
Balance at 1 January 2016	(66,302)	(471,976)	(389,196)	(153,640)	(65,452)	(1,146,566)
Reclassification between groups	13	(127)	(121)	(165)	400	-
Depreciation charge	(4,398)	(19,884)	(19,181)	(11,281)	-	(54,744)
Impairment	-	-	-	-	-	-
Disposals	38	202	1,041	729	4	2,014
At 30 June 2016 (unaudited)	(70,649)	(491,785)	(407,457)	(164,357)	(65,048)	(1,199,296)
Net book value						
At 1 January 2016	171,346	666,580	495,923	113,040	287,155	1,734,044
At 30 June 2016 (unaudited)	168,975	659,941	484,946	105,612	326,380	1,745,854

Capitalised borrowing cost for the 6 months ended 30 June 2016 amounted to RUB 12,709 million (for the 6 months ended 30 June 2015: RUB 13,396 million).

11. Intangible assets

	<u>Software</u>	<u>Licenses and certificates</u>	<u>Other intangible assets</u>	<u>Total</u>
Cost				
At 1 January 2015	16,652	271	8,762	25,685
Transfer between groups	122	(108)	(14)	-
Additions	965	1	330	1,296
Disposals	(69)	(2)	(9)	(80)
At 30 June 2015 (unaudited)	17,670	162	9,069	26,901
A 1 January 2016	19,346	149	11,936	31,431
Transfer between groups	30	-	(30)	-
Additions	878	1	354	1,233
Disposals	(82)	(10)	(939)	(1,031)
At 30 June 2016 (unaudited)	20,172	140	11,321	31,633
Amortization and impairment				
At 1 January 2015	(9,099)	(145)	(2,141)	(11,385)
Transfer between groups	(113)	113	-	-
Amortization charge	(1,187)	(39)	(262)	(1,488)
Disposals	66	2	(5)	63
At 30 June 2015 (unaudited)	(10,333)	(69)	(2,408)	(12,810)
At 1 January 2016	(10,588)	(92)	(2,219)	(12,899)
Transfer between groups	(12)	-	12	-
Amortization charge	(1,059)	(11)	(1,501)	(2,571)
Disposals	80	10	778	868
At 30 June 2016 (unaudited)	(11,579)	(93)	(2,930)	(14,602)
Net book value				
At 30 June 2015 (unaudited)	7,337	93	6,661	14,091
At 30 June 2016 (unaudited)	8,593	47	8,391	17,031

12. Other investments and financial assets

	30 June 2016 (unaudited)	31 December 2015
Non-current		
Available-for-sale financial assets	49,676	22,215
Financial assets held to maturity	3,038	3,096
Assets related to employee defined benefits plans	6,912	6,617
	59,625	31,928
Current		
Financial assets held to maturity	23,688	36,777
	23,688	36,777

Available-for-sale non-current financial assets are mainly represented by the shares in PJSC "Inter RAO UES". Fair value of these shares is based on published market quotations and amounted to RUB 49,043 million and RUB 21,480 million as at 30 June 2016 and 31 December 2015 respectively. For the six months ended 30 June 2016 increase in the fair value of these available-for-sale financial investments is represented in other comprehensive income.

Financial assets held to maturity are mainly represented by bank deposits with an original maturity of more than three months which were placed with a number of banks bearing an interest of 0.51-10.95% per annum.

13. Cash and cash equivalents

	30 June 2016 (unaudited)	31 December 2015
Cash in state-controlled banks	74,882	50,490
Cash in banks not controlled by state	756	2,250
Deposits in state-controlled banks	26,108	44,196
Deposits in other banks	954	29
Cash equivalents	116	125
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	102,816	97,090

As at 30 June 2016 the Group has obligations under the Agreement with the Ministry of Energy (signed on 30 December 2015) for the implementation of activities related to the creation of infrastructure for the purpose of technological connection of a number of clients of the Group. Under the Agreement, the Group is obliged to pay to the budget of the Russian Federation the funds which are not spent as target funds or not disbursed, with a maximum amount of RUB 14,975 million and also pay a penalty at the rate of 8.25% of this amount. The term of performance of obligations under the Agreement is 31 December 2016.

During the reporting period the Group did not undertake expenditure of funds under this Agreement; accordingly, as at 30 June 2016 the Group has monetary funds in the settlement account with the specified intended use in the amount of RUB 14,975 million.

14. Equity

(a) Share capital

<i>Number of shares unless otherwise stated</i>	Ordinary shares		Preference shares	
	30 June 2016 Unaudited	31 December 2015	30 June 2016 Unaudited	31 December 2015
Shares issued	161,078,853,310	161,078,853,310	2,075,149,384	2,075,149,384
Par value	RUB 1	RUB 1	RUB 1	RUB 1

(b) Dividends

The Annual General Shareholders Meeting held on 30 June 2016 decided not to pay dividends on ordinary and preference shares for 2015 and pay dividends from the net profit of PJSC "ROSSETI" for the first quarter of 2016 in the amount of RUB 1,785 million for preferred shares in the amount of RUB 0.07 per one preference share and ordinary shares at RUB 0.008 per one ordinary share).

Preference shares carry the right to vote on all matters within the competence of General shareholders' meetings following the Annual shareholders' meeting at which a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at General shareholders' meetings ceases from the date of the first full payment of dividends on such shares. However, the dividend is not cumulative. The preference shares also carry the right to vote in respect of the Company's Charter amendments that limit their rights, including reorganization and liquidation.

(c) Issue of additional shares

On 6 October 2015 the Extraordinary General Meeting of Shareholders of the Company approved an increase in the Company's charter capital through issuance of 42,796,991,468 additional ordinary shares with a par value of 1 rouble each under an open subscription. The offering price was determined at 1 roubles per share. Funds for the issue of shares at 31 December 2015, in the amount of RUB 33,473 million were recognised as reserve for issue of shares directly in equity.

As at 30 June 2016 cash received for the issue of shares during January – May 2016, in the amount of RUB 1,444 million was also recognized as provision for the issue of shares directly in equity.

On 30 May 2016 placement of the additional share issue was completed and 34,916,726,397 shares were placed. The increase in share capital was registered on 17 August 2016.

(d) Changes in ownership interests of subsidiaries

Shares issued by subsidiaries

On 24 November 2015, an Extraordinary General Meeting of Shareholders of PJSC Lenenergo, the Group's subsidiary, approved an increase in charter capital through the issuance of additional 18,882,455,451 ordinary shares with a par value of RUB 1 each under an open subscription. The approved offering price was RUB 6.99. In 2015, 4,660,980,974 shares were acquired by the Group, 2,179,903,032 shares were acquired by the city of St. Petersburg represented by the Committee of property relations. The Group made a payment for shares by Federal loan bonds issued in the amount of RUB 32,000 million and cash RUB 580 million. Additional capital of RUB 15,091 million attributable to non-controlling shareholders was recognized as non-controlling interest as at 31 December 2015. As a result of the subscription of shares the Group's ownership interest in PJSC Lenenergo increased from 67.55% to 68.01%. In June 2016, the Group transferred cash for 24,086,475 ordinary shares in the amount of RUB 168,364 million.

14. Equity (continued)**(d) Changes in ownership interests of subsidiaries (continued)**

On 27 November 2015, an Extraordinary General Meeting of Shareholders of PJSC IDGC of Volga, the Group's subsidiary, approved an increase in charter capital through the issuance of additional 10,685,233,931 ordinary shares with a par value of RUB 0.1 each under an open subscription. The approved offering price was RUB 0.1. In 2015, 668,600,000 shares were subscribed by the Company for RUB 67 million paid in cash. The Group recognized an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 12 million. As a result of the subscription of shares the Group's ownership interest in PJSC IDGC of Volga increased from 67.63% to 67.75%.

In June 2016, the Group additionally acquired from this issue 1,848,200,000 shares. The group made a payment of shares for cash in the amount of RUB 185 million, the Group recognized an increase in retained earnings and a decrease in non-controlling share in the amount of RUB 36 million. As a result of the subscription of shares the Group's ownership interest in PJSC IDGC of Volga increased from 67.75% to 68.08%.

On 26 June 2015, the Annual General Meeting of Shareholders of PJSC IDGC of Siberia, the Group's subsidiary, approved an increase in charter capital through the issuance of additional 5,071,030,570 preferred shares with a par value of RUB 0.1 each under private subscription. The approved offering price was RUB 0.1. In 2016, the Group acquired all the shares of this issue. The group made a payment of shares for cash in the amount of RUB 507 million. The report about results of release was registered on 18 February 2016. The group recognized an increase in retained earnings and a decrease in non-controlling share in the amount of RUB 98 million. As a result of the subscription of shares the Group's share in PJSC IDGC of Siberia increased from 55.59% to 57.84%.

15. Earnings per share (unaudited)

The calculation of basic earnings per share for the six months ended 30 June 2016 was based on the profit attributable to ordinary shareholders of RUB 42,334 million (six months ended 30 June 2015: profit of RUB 18,127 million), and a weighted average number of ordinary shares outstanding of RUB 194,224 million (six months ended 30 June 2015: RUB 159,588 million), as shown below.

<i>In millions of shares</i>	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
Issued shares at 1 January	161,079	161,079
Effect of own shares held	(1,488)	(1,491)
Effect of issued shares	34,633	-
Weighted average number of shares for the six months ended 30 June	194,224	159,588
	Six months ended 30 June 2016 Unaudited	Six months ended 30 June 2015 Unaudited
Weighted average number of ordinary shares for the six months ended 30 June (in millions of shares)	194,224	159,588
Profit for the period attributable to holders of ordinary shares	42,334	18,127
Profit per ordinary share (in RUB) – basic and diluted	0.22	0.11

16. Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings and financial lease liabilities, which are measured at amortised cost.

	<u>30 June 2016</u> <u>Unaudited</u>	<u>31 December 2015</u>
Non-current liabilities		
Unsecured loans and borrowings	206,429	220,999
Unsecured bonds	324,089	344,422
Financial lease liabilities	939	663
Less: current portion of long-term financial lease liabilities	(170)	(146)
Less: current portion of long-term loans and borrowings	(52,610)	(54,036)
Less: current portion of long-term bonds	(30,088)	(46,463)
	<u>448,589</u>	<u>465,439</u>
Current liabilities		
Unsecured loans and borrowings	27,536	17,828
Promissory notes	359	359
Current portion of long-term financial lease liabilities	170	146
Current portion of long-term loans and borrowings	52,610	54,036
Current portion of long-term bonds	30,088	46,463
	<u>110,763</u>	<u>118,832</u>

16. Loans and borrowings (continued)

The Group raised the following bank loans and borrowings and issued the following bonds during the six months ended 30 June 2016:

	<u>Currency</u>	<u>Nominal value</u>	<u>Interest rate</u>	<u>Maturity</u>
Unsecured bank loans*	RUB	29,484	10.50-12.91%	2016-2019
Unsecured bank loans*	RUB	13,302	11.25-11.70%	2019
Unsecured bank loans*	RUB	11,108	10.90-13.50%	2016-2020
Unsecured bank loans	RUB	6,865	11.30-15.50%	2016-2021
Unsecured bank loans	RUB	3,230	12,90%	2016
Unsecured bank loans	RUB	1,500	11.60%	2020
Unsecured bank loans	RUB	994	12.70-13.50%	2016-2017
Unsecured bank loans	RUB	794	14.70%	2016
Unsecured bank loans	RUB	500	12.50%	2018
Unsecured bank loans	RUB	500	11,25%	2016
Unsecured bank loans	RUB	412	12.50-14.00%	2016-2018
Unsecured bank loans	RUB	98	13.40-16.00%	2016-2018
Unsecured bank loans	RUB	35	18.00%	2017
Unsecured bank loans	RUB	<u>2</u>	-	2016
		<u>68,824</u>		
Unsecured bonds	RUB	<u>13,000</u>	10.00-10.30%	2019
		<u>13,000</u>		

* Loans from government-related entities

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

	<u>Amount</u>
Bonds	31,058
Loans from government-related entities	61,464
Other loans and borrowings	12,391
	<u>104,913</u>

The amount of free limits on open but unused credit lines of the Group was RUB 220,844 million at 30 June 2016 (as at 31 December 2015: RUB 201,269 million).

17. Financial risk and capital management

The Group's financial risk and capital management objectives and policies and the assumptions made in measuring fair values are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2015.

The fair values of financial assets and liabilities approximate the carrying amounts as at 30 June 2016 except for the following:

Financial liabilities

	Carrying value (unaudited)	Fair value (unaudited)
Loans and borrowings	559,352	544,921
- Level 1 in the fair value hierarchy	127,856	120,778
- Level 2 in the fair value hierarchy	289,503	282,150
- Level 3 in the fair value hierarchy	141,993	141,993

The interest rate of 12.94 – 14.06% was used in discounting of future cash flows for determining the fair value of non-current and current debt as at 30 June 2016 as the assumption of Level 2 in the fair value hierarchy (as at 31 December 2015: 12.94 – 14.58%).

Financial assets

As of 30 June 2016 the Group holds investments in equity shares of RUB 49,676 million classified as available for sale which are listed on PJSC Moscow Exchange MICEX-RTS, measured at fair value and belong to Level 1 in the fair value hierarchy. Valuation of available-for sale investments is made on a recurring basis using quoted market prices. Effect from the revaluation to market quotations is reflected within the Net change in fair value of available-for-sale financial assets line of Other comprehensive income section of the Statement of Profit and Loss and Other Comprehensive Income.

18. Capital commitments

As at 30 June 2016 the Group has outstanding capital commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 282,702 million (as at 31 December 2015: RUB 264,696 million).

19. Contingencies

(a) Insurance

The Group has unified requirements in respect of the volume of insurance coverage, reliability of insurance companies and about procedures of insurance protection organization. The Group maintains insurance of assets, civil liability and other insurable risks. The main business assets of the Group have insurance coverage, including coverage in case of damage or loss of assets. However, there are risks of negative impact on the operations and the financial position of the Group in the case of damage caused to third parties, and also as a result of damage or loss of assets, insurance protection of which is non-existent or not implemented fully.

19. Contingencies (continued)

(b) Taxation contingencies

The current taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes 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 and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may result in 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.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

(d) Commitments to construct infrastructure for the purpose of technological connection

The Group's commitments to fulfill the conditions of the Agreement with the Ministry of Energy (implementation of activities related to the creation of infrastructure for the purpose of technological connection of a number of clients of the Group) are disclosed in Note 13 "Cash and cash equivalents".

(e) Environmental matters

The Group is operating in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement position of Government authorities is continually being reconsidered. The Group's 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, the Group's management believes that there are no significant liabilities for environmental damage.

(f) Guarantees

As at 30 June 2016 the Company acts as guarantor for its subsidiaries: PJSC "IDGC of Centre", PJSC "IDGC of Centre and Volga region", JSC "Yantarenergo" to the company LLC "Infrastructure investment - 3". The subject of the guarantee is fulfilment of the obligations under lease agreements, the total guarantee amounts to RUB 11,556 million.

20. Related party transactions**(a) Control relationships**

The Russian Government holds the majority of the voting rights of the Company and it is the ultimate controlling party of the Group.

(b) Transactions with government-related entities

In the course of its operating activities the Group engages in significant transactions with government-related entities. Revenues and purchases from government-related entities are measured at regulated tariffs as applicable.

Revenues from government-related entities for the six months ended 30 June 2016 constitute 39% (six months ended 30 June 2015: 37%) of total revenues, including 40% (six months ended 30 June 2015: 40%) of electricity transmission revenues.

Electricity transmission costs (including purchased electricity for compensation of technological losses) for government-related entities for the six months ended 30 June 2016 constitute 32% (six months ended 30 June 2015: 31%) of total transmission costs.

Significant loans from government-related entities raised and repaid during the period are disclosed in Note 15.

(c) Pricing policies

Related party revenue for electricity transmission is based on the tariffs determined by the government.

(d) Management remuneration

The Group identifies members of the Management Board and Board of Directors of the Company as key management personnel. The remuneration for members of the Management Board and Board of Directors consists of the salary stipulated by the employment contract, non-monetary benefits, bonuses determined based on the results for the period, and other payments. Remuneration or compensation is not payable to members of the Board of Directors who are government employees.

The Group has no transactions or balances with key management personnel and close family members except their remuneration in the form of salary and bonuses.

Key management personnel received the following remuneration during the period, which is included in personnel costs:

	Six months ended 30 June 2016 Unaudited	Six months ended 30 June 2015 Unaudited
Salaries and bonuses	<u>143</u>	<u>150</u>

21. Events after the reporting period

At 17 August 2016 the changes in the Charter of PJSC "ROSSETI" have been registered (Notes 1(c), 14).