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 2017

(UNAUDITED)

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Independent 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 2017, the related condensed consolidated interim statements of profit or loss and other comprehensive income for the three- and six-month periods then ended, the related condensed consolidated interim statements of cash flows and changes in equity for the six-month period then ended, and notes to the condensed consolidated interim financial statements (the "condensed consolidated interim financial statements"). Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*, as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

Registration No. in the Unified State Register of Legal Entities 1024701893336.

Moscow, Russia

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.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

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 2017 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.

Kisseleva L.R.

Director

JSC "KPMG"

Moscow, Russia

17 August 2017

Condensed Consolidated Interim Statement of Financial Position (Unaudited, except for balances as at 31 December 2016)
(in millions of Russian Rouble unless otherwise stated)

	Notes	30 June 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	5	857,945	846,695
Intangible assets		6,844	7,320
Investments in associates and joint ventures		1,252	1,160
Available-for-sale investments	6	75,946	76,537
Deferred income tax assets		13	14
Long-term accounts receivable	8	47,539	45,145
Other non-current assets		888	1,853
Total non-current assets		**990,427**	**978,724**
Current assets			
Cash and cash equivalents	7	38,642	44,404
Bank deposits	7	6,882	450
Accounts receivable and prepayments	8	62,255	58,187
Income tax prepayments		317	305
Inventories		16,796	14,900
Other current assets		110	140
Total current assets		**125,002**	**118,386**
TOTAL ASSETS		**1,115,429**	**1,097,110**
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		281,093	281,759
Accumulated deficit		(192,742)	(198,273)
Equity attributable to shareholders of FGC UES		**731,466**	**726,601**
Non-controlling interest		460	1,816
Total equity		**731,926**	**728,417**
Non-current liabilities			
Deferred income tax liabilities		31,655	25,433
Non-current debt	11	237,097	236,954
Deferred income		1,011	919
Retirement benefit obligations		6,442	5,959
Total non-current liabilities		**276,205**	**269,265**
Current liabilities			
Accounts payable to shareholders of FGC UES		19,466	73
Current debt and current portion of non-current debt	11	18,885	29,660
Accounts payable and accrued charges	12	66,426	62,059
Income tax payable		2,521	7,636
Total current liabilities		**107,298**	**99,428**
Total liabilities		**383,503**	**368,693**
TOTAL EQUITY AND LIABILITIES		**1,115,429**	**1,097,110**

17 August 2017

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 Other Comprehensive Income (Unaudited)
(in millions of Russian Rouble unless otherwise stated)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2017	**2016**	**2017**	**2016**
Revenues	13	51,823	58,046	101,619	110,586
Other operating income		1,255	1,946	3,500	2,735
Operating expenses	14	(33,611)	(38,916)	(63,775)	(70,417)
(Loss on regain of control) / Gain on derecognition of subsidiary	20	-	11,812	(12,327)	11,812
(Impairment) / reversal of impairment of property, plant and equipment, net	5	(43)	(1,247)	6	(1,965)
Operating profit		**19,424**	**31,641**	**29,023**	**52,751**
Finance income	15	5,238	1,927	7,990	3,725
Finance costs	16	(1,089)	(2,241)	(2,468)	(4,897)
Share of result of associates		(1)	(286)	6	(282)
Profit before income tax		**23,572**	**31,041**	**34,551**	**51,297**
Income tax expense	10	(4,497)	(2,599)	(9,664)	(6,434)
Profit for the period		**19,075**	**28,442**	**24,887**	**44,863**
Other comprehensive income / (loss)					
Items that will not be reclassified subsequently to profit or loss					
Remeasurements of retirement benefit obligations		(64)	(355)	(287)	(614)
Income tax relating to items that will not be reclassified		(6)	14	7	30
Total items that will not be reclassified to profit or loss		**(70)**	**(341)**	**(280)**	**(584)**
Items that may be reclassified subsequently to profit or loss					
Change in fair value of available-for-sale investments	6	(3,571)	13,519	(591)	27,820
Foreign currency translation difference		91	(89)	87	(2)
Income tax relating to items that may be reclassified		714	(2,704)	118	(5,564)
Total items that may be reclassified to profit or loss		**(2,766)**	**10,726**	**(386)**	**22,254**
Other comprehensive loss / (income) for the period, net of income tax		**(2,836)**	**10,385**	**(666)**	**21,670**
Total comprehensive income for the period		**16,239**	**38,827**	**24,221**	**66,533**
Profit / (loss) attributable to:					
Shareholders of FGC UES	17	19,075	28,531	24,928	45,057
Non-controlling interest		-	(89)	(41)	(194)
Total comprehensive income / (loss) attributable to:					
Shareholders of FGC UES		16,239	38,916	24,262	66,727
Non-controlling interest		-	(89)	(41)	(194)
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	17	**0.015**	**0.023**	**0.020**	**0.036**

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

	Notes	Six months ended 30 June 2017	Six months ended 30 June 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**34,551**	**51,297**
Adjustments to reconcile profit before income tax to net cash provided by operations			
Depreciation of property, plant and equipment	5,14	22,240	19,712
Loss / (gain) on disposal of property, plant and equipment		314	(1,202)
Amortisation of intangible assets		662	687
(Reversal of) / impairment of property, plant and equipment, net	5	(6)	1,965
Loss on regain of control / (gain on derecognition) of subsidiary	20	12,327	(11,812)
Share of result of associates		(6)	282
Accrual / (reversal) of allowance for doubtful debtors	14	945	(2,626)
(Reversal) / accrual of other provision for liabilities and charges		(988)	307
Finance income	15	(7,990)	(3,725)
Finance costs	16	2,468	4,897
Other non-cash operating income		-	(30)
Operating cash flows before working capital changes and income tax paid		**64,517**	**59,752**
Working capital changes:			
Increase in accounts receivable and prepayments		(2,477)	(8,980)
(Increase) / decrease in inventories		(1,896)	1,142
Increase in other non-current and current assets		(32)	(38)
(Decrease) / increase in accounts payable and accrued charges		(4,953)	6,419
Decrease in retirement benefit obligations		(47)	(311)
Income tax paid		(8,445)	(4,689)
Net cash generated by operating activities		**46,667**	**53,295**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(30,446)	(28,472)
Proceeds from disposal of property, plant and equipment		219	2,907
Purchase of intangible assets		(176)	(427)
Redemption of promissory notes		2	94
Investment in bank deposits		(9,596)	(4,824)
Redemption of bank deposits		3,164	25,395
Dividends received		599	246
Loans given		(2)	(45)
Repayment of loans given		1,003	-
Interest received		2,557	3,124
Net cash used in investing activities		**(32,676)**	**(2,002)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from current and non-current borrowings		34	-
Repayment of non-current borrowings		(9,580)	(9,954)
Repayment of current borrowings		(362)	-
Repayment of lease		(75)	(75)
Interest paid		(9,894)	(16,386)
Government grants		124	-
Net cash used in financing activities		**(19,753)**	**(26,415)**
Net (decrease) / increase in cash and cash equivalents		**(5,762)**	**24,878**
Cash and cash equivalents at the beginning of the period	7	**44,404**	**28,176**
Cash and cash equivalents at the end of the period	7	**38,642**	**53,054**

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

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited, except for balances as at 1 January)
(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 2017		**637,333**	**10,501**	**(4,719)**	**281,759**	**(198,273)**	**726,601**	**1,816**	**728,417**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	24,928	**24,928**	(41)	**24,887**
Other comprehensive income / (loss), net of related income tax									
Change in fair value of available-for-sale investments	6	-	-	-	(473)	-	**(473)**	-	**(473)**
Remeasurements of retirement benefit obligations		-	-	-	(280)	-	**(280)**	-	**(280)**
Foreign currency translation difference		-	-	-	87	-	**87**	-	**87**
Total other comprehensive income		-	-	-	***(666)***	-	***(666)***	-	***(666)***
Total comprehensive income for the period		-	-	-	(666)	24,928	**24,262**	(41)	**24,221**
Transactions with shareholders of FGC UES recorded directly in equity									
Dividends declared	9	-	-	-	-	(19,397)	**(19,397)**	(3)	**(19,400)**
Total transactions with shareholders of FGC UES		-	-	-	-	(19,397)	**(19,397)**	(3)	**(19,400)**
Changes in ownership									
Regain of control over subsidiary	20	-	-	-	-	-	-	(1,312)	**(1,312)**
Total changes in ownership		-	-	-	-	-	-	(1,312)	**(1,312)**
As at 30 June 2017		**637,333**	**10,501**	**(4,719)**	**281,093**	**(192,742)**	**731,466**	**460**	**731,926**

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited, except for balances as at 1 January)
(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**
Total 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	-	-	-	-	(16,817)	**(16,817)**	(1)	**(16,818)**
Total transactions with shareholders of FGC UES		-	-	-	-	(16,817)	**(16,817)**	(1)	**(16,818)**
Changes in ownership									
Derecognition of subsidiary		-	-	-	-	-	-	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**	**(224,740)**	**669,623**	**904**	**670,527**

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 2017, 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 Condensed Consolidated Interim Financial Statements ("Condensed Consolidated Interim Financial Statements") reflect management's assessment of the impact of the Russian business environment on the operations and 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.

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 2016 prepared in accordance with IFRS as adopted by EU.

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 2016.

Regain of control over OJSC "Nurenergo"(Note 20). 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 condensed consolidated interim statement of profit or loss and other comprehensive income.

On 27 January 2017, the North-Caucasian District State Commercial Court (the Court of Cassation) overturned the Court Ruling and sent the case to the Court of First Instance for re-trial. As at 30 June 2017 the Group analysed all the facts and conditions and concluded that the control over the subsidiary was regained from 27 January 2017.

The Group recognized the assets and liabilities of the OJSC "Nurenergo" as at 30 June 2017. The difference between its net identifiable liabilities at the date, when control was regained, and the aggregate of the non-controlling interest and reversal of impairment of intercompany balances was not accounted for as goodwill by the Group and was recognized immediately as loss in the condensed consolidated interim statement of profit or loss and other comprehensive income in the amount of RR 12,327 million.

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 2017, 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 2016. 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 2017. However, they do not impact the Group's annual consolidated financial statements or the Condensed Consolidated Interim Financial Statements.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

Note 4. Balances and transactions with related parties

Government-related entities. During the three and six months ended 30 June 2017 and 2016 the Group had the following significant transactions with government-related entities:

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
Transmission revenue	38,284	35,262	76,736	70,885
Electricity sales	692	4,230	1,897	8,838
Construction services	1,025	8,413	1,564	10,750
Connection services	301	46	377	73
Dividend income	2,476	-	2,476	-
Purchased electricity for production needs	(1,196)	(1,238)	(2,801)	(3,063)

Significant balances with government-related entities are presented below:

	30 June 2017	**31 December 2016**
Cash and cash equivalents	29,124	32,794
Bank deposits	6,817	450
Long-term accounts receivable	46,432	44,512
Other non –current assets	18	16
Other current assets	7	7
Trade receivables (net of allowance for doubtful debtors of RR 6,966 million as at 30 June 2017 and RR 7,555 million as at 31 December 2016)	37,123	40,831
Other receivables (net of allowance for doubtful debtors of RR 681 million as at 30 June 2017 and RR 1,161 million as at 31 December 2016)	3,412	2,221
Available-for-sale investments	75,946	76,537
Advances to construction companies and suppliers of property, plant and equipment (included in CIP)	340	604
Accounts payable to shareholders of FGC UES	(19,466)	(73)
Non-current debt	-	(300)
Current debt	(359)	(465)
Accounts payable and accrued charges	(36,835)	(13,214)

As at 30 June 2017 the Group had long-term and short-term undrawn committed financing facilities with government-related banks of RR 80,350 million and RR 25,000 million respectively (as at 31 December 2016: RR 105,000 million and nil) (Note 11).

Tax balances and charges are disclosed in Notes 12 and 14. Tax transactions are disclosed in the Condensed Consolidated Interim Statement of Profit or 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 2017 and 2016 was as follows:

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
Short-term compensation, including salary and bonuses	186	179	229	220
Post-employment benefits and other long-term benefits	-	5	20	9
Total	**186**	**184**	**249**	**229**

Remuneration provided to the members of the Board of Directors for the six months ended 30 June 2017 amounted to RR 7 million (30 June 2016: RR 6 million).

Note 5. Property, plant and equipment

	Buildings	Power trans-mission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Balance as at 1 January 2017	23,867	371,201	289,526	124,897	37,204	846,695
Additions	193	39	26	33,655	557	34,470
Transfers	(70)	327	1,920	(2,300)	123	-
Disposals	(67)	(247)	(374)	(218)	(112)	(1,018)
Balance as at 30 June 2017	23,923	371,320	291,098	156,034	37,772	880,147
Accumulated depreciation and impairment						
Balance as at 1 January 2017	-	-	-	-	-	-
Depreciation charge	(225)	(7,729)	(10,722)	-	(3,564)	(22,240)
Reversal of impairment	-	-	-	6	-	6
Disposals	-	8	9	-	15	32
Balance as at 30 June 2017	(225)	(7,721)	(10,713)	6	(3,549)	(22,202)
Net book value as at 1 January 2017	23,867	371,201	289,526	124,897	37,204	846,695
Net book value as at 30 June 2017	23,698	363,599	280,385	156,040	34,223	857,945
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

Note 6. Available-for-sale investments

	1 January 2017	Change in fair value	30 June 2017
PJSC "INTER RAO UES"	74,520	(213)	74,307
PJSC "Russian Grids"	1,906	(378)	1,528
Other	111	-	111
Total	**76,537**	**(591)**	**75,946**

	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**

Note 7. Cash and cash equivalents and bank deposits

	30 June 2017	31 December 2016
Cash at bank and in hand	11,118	20,223
Cash equivalents	27,524	24,181
Total cash and cash equivalents	**38,642**	**44,404**

Cash equivalents include investments in short-term deposits with original maturities of three months or less and contractual interest rate of 6.98-9.08% as at 30 June 2017 and 7.23-10.35% as at 31 December 2016.

Bank deposits

	Interest rate	30 June 2017	31 December 2016
JSC "Rosselkhozbank"	9.20%-9.29%	5,606	-
JSC "Gazprombank"	8.40%-9.55%	1,062	295
PJSC "VTB"	8.40%-9.70%	149	155
PJSC "Bank Otkritie Financial Corporation"	9.27%	65	-
Total bank deposits		**6,882**	**450**

Fair value of bank deposits approximates their carrying value.

Note 8. Accounts receivable and prepayments

Long-term trade receivables mainly relate to the contracts of technological connection services provided that imply deferred inflow of cash 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 contracts of technological connection are paid in equal parts every six months with an interest accrued on the actual outstanding balances at the rate of 6% per annum. Fair value of consideration receivable for these contracts is determined using present value technique based on estimated future cash flows and the discount rates of 9.33-9.63%.

Long-term trade receivables are stated net of allowance for the doubtful debtors of RR 443 million as at 30 June 2017 and RR 524 million as at 31 December 2016).

	30 June 2017	31 December 2016
Trade receivables		
(Net of allowance for doubtful debtors of RR 11,854 million as at 30 June 2017 and RR 12,117 million as at 31 December 2016)	43,130	47,824
Other receivables		
(Net of allowance for doubtful debtors of RR 2,476 million as at 30 June 2017 and RR 3,513 million as at 31 December 2016)	8,163	6,410
VAT recoverable	1,495	580
Advances to suppliers		
(Net of allowance for doubtful debtors of RR 2,024 million as at 30 June 2017 and RR 2,054 million as at 31 December 2016)	9,271	3,127
Tax prepayments	196	246
Total short-term accounts receivable and prepayments	**62,255**	**58,187**

Trade and other receivables are not interest-bearing and are largely due in 30 to 90 days as at 30 June 2017 and 31 December 2016. Given the short period of the trade and other receivables repayment, the fair value of such receivables approximates their book value.

Note 9. Equity

Share capital

	Number of shares issued and fully paid		Share Capital	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Ordinary shares	1,274,665,323,063	1,274,665,323,063	637,333	637,333

As at 30 June 2017 the authorised share capital comprised 1,346,805,824 thousand ordinary shares with a nominal value of RR 0.5 per share

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 2016: 4,719 million).

Dividends. The Annual General Meeting in June 2017 approved the decision to declare dividends for the year 2016 and for the first quarter of 2017 in the total amount of RR 19,608 million, RR 211 million of them relate to treasury shares. Dividends per ordinary share amounted to RR 0.01538.

Note 9. Equity (continued)

The Annual General Meeting in June 2016 approved the decision to declare dividends for the year 2015 in the total amount of RR 16,977 million, RR 160 million of them relate to treasury shares. Dividends per ordinary share amounted to RR 0.01332.

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 2017 and 2016 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	
	2017	**2016**	**2017**	**2016**
Profit before income tax	**23,572**	**31,041**	**34,551**	**51,297**
Theoretical income tax charge at the statutory tax rate of 20 percent	(4,714)	(6,208)	(6,910)	(10,259)
Tax effect of (regain of control) / derecognition of subsidiary	-	2,767	(2,871)	2,767
Tax effect of items which are not deductible for taxation purposes	311	(410)	194	(516)
Movement in unrecognised deferred tax assets	(94)	1,252	(77)	1,574
Total income tax expense	**(4,497)**	**(2,599)**	**(9,664)**	**(6,434)**

Note 11. Non-current debt

	Effective interest rate	Due	30 June 2017	31 December 2016
Certified interest-bearing non-convertible bearer bonds:				
with fixed rates	7.5-8.75%	2017-2051	86,422	96,179
with variable rates	CPI+1-2.5%	2022-2050	151,258	151,727
Loan participation notes (LPNs)	8.45%	2019	17,943	17,943
Finance lease liabilities	9.50%	2018	359	415
Total debt			**255,982**	**266,264**
Less: current portion of non-current bonds and LPNs			(18,526)	(29,195)
Less: current portion of finance lease liabilities			(359)	(115)
Total non-current debt			**237,097**	**236,954**

All debt instruments are denominated in Russian Rouble.

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

		30 June 2017		31 December 2016	
	Level	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Non-convertible bearer bonds with fixed rates and loan participation notes	1	101,368	104,079	109,355	113,856
Non-convertible bearer bonds with variable rates	1	9,228	10,322	9,761	10,411
Total debt		**110,596**	**114,401**	**119,116**	**124,267**

Other non-current debt with variable rates classified into fair value hierarchy level 3 represent non-quoted non-convertible bearer bonds with variable 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 2017 the Group had long-term and short-term undrawn committed financing facilities of RR 129,350 million and RR 25,050 million respectively (as at 31 December 2016: RR 152,500 million and nil) which could be used for the general purposes of the Group.

Note 12. Accounts payable and accrued charges

	30 June 2017	31 December 2016
Trade payables	21,089	8,670
Accounts payable to construction companies and suppliers of property, plant and equipment	20,151	23,759
Advances received	13,493	15,091
Provision for legal claims	2,970	4,029
Accounts payable to employees	2,558	2,313
Taxes other than on income payable	5,114	7,221
Other creditors and accrued liabilities	1,051	976
Total accounts payable and accrued charges	**66,426**	**62,059**

Note 13. Revenue

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Transmission fee	44,889	40,966	90,748	82,567
Electricity sales	1,463	6,038	4,032	11,782
Construction services	3,070	9,525	3,822	12,478
Connection services	1,615	888	1,715	2,558
Other revenues	786	629	1,302	1,201
Total revenues	**51,823**	**58,046**	**101,619**	**110,586**

Note 14. Operating expenses

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Depreciation of property, plant and equipment	11,261	9,927	22,240	19,712
Employee benefit expenses and payroll taxes	6,983	6,958	12,908	13,145
Purchased electricity	3,112	5,199	7,247	11,828
Property tax	2,744	2,325	5,518	4,677
Fuel for mobile gas-turbine electricity plants	1,175	968	3,201	4,527
Subcontract works for construction contracts	1,153	5,098	1,924	7,680
Materials for construction contracts	1,511	3,551	1,555	3,607
Accrual / (reversal) of allowance for doubtful debtors	267	118	945	(2,626)
Business trips and transportation expenses	500	461	919	859
Rent	416	358	808	667
Security services	376	365	740	721
Amortisation of intangible assets	333	356	662	687
Electricity transit	283	644	524	1,215
Other expenses	3,497	2,588	4,584	3,718
Total operating expenses	**33,611**	**38,916**	**63,775**	**70,417**

Note 15. Finance income

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Interest income	968	1,652	2,548	3,415
Unwind of discount of accounts receivable	1,773	-	2,912	-
Foreign currency exchange differences	7	18	23	40
Dividend income	2,476	246	2,476	246
Other finance income	14	11	31	24
Total finance income	**5,238**	**1,927**	**7,990**	**3,725**

Note 16. Finance costs

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
Interest expense	4,380	6,419	9,245	14,723
Net interest on the defined benefit obligations	119	150	243	322
Foreign currency exchange differences	1	47	61	102
Total finance costs	**4,500**	**6,616**	**9,549**	**15,147**
Less: capitalised interest expenses	(3,411)	(4,375)	(7,081)	(10,250)
Total finance costs recognised in profit or loss	**1,089**	**2,241**	**2,468**	**4,897**

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

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
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)	19,075	28,531	24,928	45,057
Weighted average earning per share – basic and diluted (in RR)	**0.015**	**0.023**	**0.020**	**0.036**

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 significant changes in political environment, insurance policies and environmental matters during the six months ended 30 June 2017 in comparison with those described in the Group's consolidated financial statements for the year ended 31 December 2016 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. As at 30 June 2017 claims made by suppliers of property, plant and equipment and other counterparties to the Group amounted to RR 5,284 million (as at 31 December 2016: RR 3,859 million). Management of the Group is unable to assess the ultimate outcome of the claims and the outflow of financial resources to settle such claims, if any.

Management believes that it has made adequate provision for other probable claims. In the opinion of management, currently there are no other existing legal proceedings or claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

As at 30 June 2017 the Group's subsidiary, OJSC "Nurenergo" was engaged in a number of litigations and claims for collection of amounts payable for electricity purchased by OJSC "Nurenergo".These claims are mostly recorded within accounts payable. No additional provision has been made as the Group's management believes that these claims are unlikely to result in any further liabilities.

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 2017 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 209,902 million as at 30 June 2017 (as at 31 December 2016: RR 210,968 million) including VAT. These amounts include accounts payable to construction companies and suppliers of property, plant and equipment in the amount of RR 20,151 million as at 30 June 2017 (as at 31 December 2016: RR 23,759 million) (Note 12).

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**	
	2017	**2016**	**2017**	**2016**
Revenue from external customers	47,619	41,911	93,415	85,221
Intercompany revenue	69	371	148	690
Total revenue	**47,688**	**42,282**	**93,563**	**85,911**
Segment profit for the period	10,455	5,875	19,061	16,080

	30 June 2017	**31 December 2016**
Total reportable segment assets (RAR)	1,398,603	1,398,048
Total reportable segment liabilities (RAR)	429,876	428,746

Statements for the three and six months ended 30 June 2017 and 2016 is presented below:

	Three months ended 30 June		**Six months ended 30 June**	
	2017	**2016**	**2017**	**2016**
Total revenue from segment (RAR)	**47,688**	**42,282**	**93,563**	**85,911**
Reclassification between revenue and other income	(691)	283	(286)	216
Non-segmental revenue	4,981	15,932	8,682	24,954
Elimination of intercompany revenue	(69)	(371)	(148)	(690)
Other adjustments	(86)	(80)	(192)	195
Total revenue (IFRS)	**51,823**	**58,046**	**101,619**	**110,586**

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 2017 and 2016 is presented below:

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
Profit for the period (RAR)	**10,455**	**5,875**	**19,061**	**16,080**
Property, plant and equipment				
Adjustment to the carrying value of property, plant and equipment	9,173	10,343	19,325	20,301
(Impairment) / reversal of impairment of property, plant and equipment	(44)	771	5	3,445
Financial instruments				
Discounting of promissory notes	6	21	13	21
Discounting of long-term accounts receivable	1,000	-	2,133	-
Consolidation				
Adjustment to the value of subsidiaries	22	(248)	347	(248)
Reversal of adjustments to the carrying value of intercompany promissory notes	487	(3,344)	(443)	(6,133)
Reversal of re-measurement of treasury shares	-	4	-	4
Other				
Adjustment to provision for legal claims	(146)	164	1,192	(293)
Adjustment to allowance for doubtful debtors	134	1,981	839	(397)
Accrual of retirement benefit obligations	(63)	45	(123)	72
Write-off of research and development to expenses	20	46	51	46
Share of result of associates	(1)	(286)	6	(282)
Deferred tax adjustment	(1,025)	(1,333)	(3,047)	(655)
Other adjustments	(611)	797	325	(503)
(Loss on regain of control) / gain on derecognition of subsidiary	-	11,812	(12,327)	11,812
Non-segmental other operating (loss) / profit	(332)	1,794	(2,470)	1,593
Profit for the period (IFRS)	**19,075**	**28,442**	**24,887**	**44,863**

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. Regain of control over subsidiary

On 27 January 2017 the Group recognised its investment in OJSC "Nurenergo" as the Group regained control over the entity (Note 2).

The consolidation of the subsidiary had the following effect on the Group's assets and liabilities at the date of recognition:

	Carrying amount at date of regain of control
Accounts receivable	120
Accounts payable	(15,724)
Total net liabilities of subsidiary	(15,604)
Reversal of impairment of intercompany accounts receivable and loans given	1,965
Non-controlling interest	1,312
Loss on regain of control over subsidiary	**(12,327)**