

JSC MOESK

Consolidated interim condensed financial statements
(unaudited)

for the six-month period ended 30 June 2014

JSC MOESK

Consolidated interim condensed financial statements

for the six-month period ended 30 June 2014

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Report on review of consolidated interim condensed financial statements

To the Shareholders and Board of Directors of JSC MOESK

Introduction

We have reviewed the accompanying consolidated interim condensed financial statements of JSC MOESK and its subsidiaries, which comprise the consolidated interim condensed statement of financial position as at 30 June 2014 and the related consolidated interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes.

Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with IAS 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 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 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 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Other matters

The consolidated financial statements of JSC MOESK and its subsidiaries for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards were audited by another auditor who expressed an unmodified opinion on those statements on 1 April 2014.

Consolidated interim condensed financial statements of for the six-month period ended 30 June 2013 prepared in accordance with IAS 34 *Interim Financial Reporting* were reviewed by another auditor who issued a review report with an unmodified conclusion dated 29 August 2013.

Ernst & Young LLC

22 August 2014

JSC MOESK

Consolidated interim condensed statement of profit or loss and other comprehensive income for the six months ended 30 June 2014

| '000 RUB | | 6 months ended 30 June 2014 (unaudited) | 6 months ended 30 June 2013 (unaudited) |
|---|------|---|---|
| | Note | | |
| Revenue | 7 | 60 273 466 | 61 231 364 |
| Operating expenses, net | 8 | (54 372 998) | (51 555 113) |
| Other operating income | | 1 316 185 | 541 168 |
| Results from operating activities | | 7 216 653 | 10 217 419 |
| Finance income | | 216 394 | 190 715 |
| Finance costs | | (1 625 998) | (1 527 132) |
| Profit before income tax | | 5 807 049 | 8 881 002 |
| Income tax expense | | (1 492 910) | (1 692 488) |
| Profit for the period | | 4 314 139 | 7 188 514 |
| Items not to be reclassified to profit and loss in subsequent periods | | | |
| Remeasurements of defined benefit liability | | 118 381 | 7 881 |
| Income tax on defined benefit liability | | (23 676) | (1 576) |
| Other comprehensive income for the period, net of tax | | 94 705 | 6 305 |
| Total comprehensive income for the period | | 4 408 844 | 7 194 819 |
| Profit attributable to: | | | |
| Owners of the Company | | 4 253 552 | 7 248 384 |
| Non-controlling interest | | 60 587 | (59 870) |
| | | 4 314 139 | 7 188 514 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 4 348 257 | 7 254 689 |
| Non-controlling interest | | 60 587 | (59 870) |
| Basic and diluted earnings per ordinary share (in Russian Roubles) | | 0.0873 | 0.1488 |

The consolidated interim condensed financial statements were approved on 22 August 2014.

First Deputy General Director
for Finance and Economic Activity
and Corporate management
A.V. Inozemtsev



Head of Department
on Economics and Finance
V.V. Bragova

The consolidated interim condensed statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 18 and with the consolidated financial statements for the year ended 31 December 2013.

JSC MOESK

Consolidated interim condensed statement of financial position

as at 30 June 2014

| '000 RUB | Note | 30 June 2014 (unaudited) | 31 December 2013 |
|---|------|-----------------------------|--------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 259 544 615 | 253 234 087 |
| Intangible assets | | 667 563 | 540 707 |
| Other non-current assets | | 6 577 768 | 6 127 287 |
| Total non-current assets | | 266 789 946 | 259 902 081 |
| Current assets | | | |
| Inventories | | 2 571 588 | 2 288 822 |
| Income tax receivable | | 506 678 | 94 909 |
| Trade and other receivables | | 19 737 211 | 21 736 663 |
| Promissory notes receivable | | – | 682 611 |
| Cash and cash equivalents | | 4 444 698 | 1 596 266 |
| Total current assets | | 27 260 175 | 26 399 271 |
| Total assets | | 294 050 121 | 286 301 352 |
| Equity and liabilities | | | |
| Equity | | | |
| Share capital | 10 | 24 353 546 | 24 353 546 |
| Additional paid in capital | | 18 580 888 | 18 580 888 |
| Retained earnings | | 111 712 837 | 110 274 829 |
| Total equity attributable to the shareholders of JSC MOESK | | 154 647 271 | 153 209 263 |
| Non-controlling interest | | 428 986 | 368 399 |
| Total equity | | 155 076 257 | 153 577 662 |
| Non-current liabilities | | | |
| Loans and borrowings | 12 | 50 402 476 | 52 289 354 |
| Employee benefits | | 3 703 890 | 4 257 273 |
| Deferred tax liabilities | | 9 667 934 | 9 720 266 |
| Trade and other payables | | 9 605 907 | 7 634 898 |
| Total non-current liabilities | | 73 380 207 | 73 901 791 |
| Current liabilities | | | |
| Loans and borrowings | 12 | 8 913 501 | 5 996 334 |
| Income tax payable | | – | 3 169 |
| Other taxes payable | | 1 278 436 | 294 667 |
| Trade and other payables | | 54 729 653 | 52 080 515 |
| Provisions | 13 | 672 067 | 447 214 |
| Total current liabilities | | 65 593 657 | 58 821 899 |
| Total equity and liabilities | | 294 050 121 | 286 301 352 |

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 18 and with the consolidated financial statements for the year ended 31 December 2013.

JSC MOESK

Consolidated interim condensed statement of changes in equity

for the six months ended 30 June 2014

'000 RUB

| | Attributable to equity holders of the Company | | | Total | Non-controlling interest | Total equity |
|--|---|-------------------------------|----------------------|--------------------|--------------------------|--------------------|
| | Share capital (Note 10 (a)) | Additional paid in capital | Retained earnings | | | |
| Balance at 1 January 2014 | 24 353 546 | 18 580 888 | 110 274 829 | 153 209 263 | 368 399 | 153 577 662 |
| Profit for the period | – | – | 4 253 552 | 4 253 552 | 60 587 | 4 314 139 |
| Other comprehensive income | – | – | 94 705 | 94 705 | – | 94 705 |
| Total comprehensive income for the period | 24 353 546 | 18 580 888 | 114 623 086 | 157 557 520 | 428 986 | 157 986 506 |
| Dividends to shareholders (Note 10 (b)) (unaudited) | – | – | (2 910 249) | (2 910 249) | – | (2 910 249) |
| Balance at 30 June 2014 | 24 353 546 | 18 580 888 | 111 712 837 | 154 647 271 | 428 986 | 155 076 257 |
| Balance at 1 January 2013 | 24 353 546 | 18 580 888 | 95 780 689 | 138 715 123 | 231 468 | 138 946 591 |
| Profit for the period | – | – | 7 248 384 | 7 248 384 | (59 870) | 7 188 514 |
| Other comprehensive income | – | – | 6 305 | 6 305 | – | 6 305 |
| Total comprehensive income for the period | 24 353 546 | 18 580 888 | 103 035 378 | 145 969 812 | 171 598 | 146 141 410 |
| Dividends to shareholders (Note 10 (b)) (unaudited) | – | – | (4 296 014) | (4 296 014) | – | (4 296 014) |
| Balance at 30 June 2013 | 24 353 546 | 18 580 888 | 98 739 364 | 141 673 798 | 171 598 | 141 845 396 |

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 18 and with the consolidated financial statements for the year ended 31 December 2013.

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Consolidated interim condensed statement of cash flows

for the six months ended 30 June 2014

| '000 RUB | 6 months ended 30 June 2014 (unaudited) | 6 months ended 30 June 2013 (unaudited) |
|---|---|---|
| Cash flows from operating activities | | |
| Profit for the period | 4 314 139 | 7 188 514 |
| <i>Adjustments for:</i> | | |
| Depreciation and amortization | 10 074 400 | 8 586 262 |
| Loss on disposal of property, plant and equipment | 119 266 | 160 515 |
| Impairment of property, plant and equipment | – | 318 906 |
| Provisions for legal claims charge/(release) | 286 521 | (223 307) |
| Finance income | (216 394) | (190 715) |
| Finance costs | 1 625 998 | 1 527 132 |
| Allowance for impairment of accounts receivable | 804 812 | 4 834 477 |
| Provision for inventory obsolescence | (6 749) | 2 689 |
| Loss on disposal of inventory | 1 949 | 12 815 |
| Income tax expense | 1 492 910 | 1 692 488 |
| Other non-cash items | (20 827) | – |
| Operating profit before changes in working capital | 18 476 025 | 23 909 776 |
| Change in inventories | (277 965) | (176 506) |
| Change in trade and other receivables | 2 236 665 | 1 427 679 |
| Change in retirement benefit obligations and related assets | (587 589) | 326 643 |
| Change in trade and other payables | 1 592 342 | (3 439 681) |
| Change in taxes payable, other than income tax | 983 769 | (142 996) |
| Cash flows from operations before income taxes | 22 423 247 | 21 904 915 |
| Income taxes paid | (1 983 854) | (3 979 969) |
| Interest paid | (2 318 275) | (1 992 846) |
| Net cash from operating activities | 18 121 118 | 15 932 100 |
| Cash flows from investing activities | | |
| Proceeds from disposal of property, plant and equipment | 181 738 | 2 161 |
| Acquisition of property, plant and equipment | (16 486 565) | (12 733 250) |
| Interest received | 204 356 | 180 798 |
| Acquisition of intangible assets | (189 818) | (84 443) |
| Proceeds from disposal of short-term investments | – | 10 001 |
| Net cash used in investing activities | (16 290 289) | (12 624 733) |
| Cash flows from financing activities | | |
| Proceeds from borrowings | 7 121 500 | 5 870 647 |
| Repayment of borrowings | (6 103 891) | (9 841 119) |
| Payment of finance lease liabilities | (6) | (712 416) |
| Net cash from/(used in) financing activities | 1 017 603 | (4 682 888) |
| Net increase/(decrease) in cash and cash equivalents | 2 848 432 | (1 375 521) |
| Cash and cash equivalents at beginning of period | 1 596 266 | 8 331 910 |
| Cash and cash equivalents at end of period | 4 444 698 | 6 956 389 |

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 7 to 18 and with the consolidated financial statements for the year ended 31 December 2013.

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Notes to the consolidated interim condensed financial statements

for the six months ended 30 June 2014 (unaudited)

1 Background

(a) Organisation and operations

Joint-Stock Company "Moscow United Electric Grid Company" (JSC MOESK, or the "Company") was established on 1 April 2005 by transfer of assets and activities related to the electricity transmission of OJSC Mosenergo, a subsidiary of RAO UES of Russia, within the framework of Russian electricity sector restructuring in accordance with Resolution No. 1 adopted by shareholders of OJSC Mosenergo on 29 June 2004.

The Group's consolidated interim condensed financial statements include the following subsidiaries:

- ▶ OJSC Moskabel'set'montaj (MKSM);
- ▶ OJSC Moskabel'energoremont (MKER);
- ▶ OJSC Repair of Electrical and Technical Equipment Plant (RETEP);
- ▶ OJSC Energocentr.

As at 30 June 2014, the Government of the Russian Federation owned 85.31% shares of OJSC Russian Grids (formerly OJSC "IDGC Holding") (at 31 December 2013 – 85.31%), which in turn owned 50.9% of the Company.

The Company's registered office and the actual address is at building 3/2, 2nd Paveletskiy proezd, Moscow, 115114, the Russian Federation.

The Group's principal activity is electricity transmission by means of electrical networks located in Moscow and the Moscow Region. The Group also provides connection services as part of its core operations.

(b) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group 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.

2 Basis of preparation

(a) Statement of compliance

These consolidated interim condensed financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") IAS 34 *Interim Financial Reporting*. It does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2013.

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Notes to the consolidated interim condensed financial statements (continued)

2 Basis of preparation (continued)

(b) Basis of measurement

The consolidated interim condensed financial statements are prepared on the historical cost basis except that investments classified as available-for-sale are stated at fair value.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Group companies functional currency and the currency in which these consolidated interim condensed financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand.

(d) Use of judgements, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated interim condensed financial statements in conformity with IFRS. Actual results may differ from those estimates.

The judgements, estimates and assumptions applied by the Group in these consolidated interim condensed financial statements are substantially the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2013.

3 Significant accounting policies

Except as described below, the accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2013.

Changes in accounting policies

The following standards and amendments became effective as of 1 January 2014:

- ▶ Investment Entities – Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*;
- ▶ Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 *Financial Instruments: Presentation*;
- ▶ Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 *Impairment of Assets*;
- ▶ Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*;
- ▶ IFRIC 21 *Levies*.

None of these standards and amendments impact the Group's interim condensed consolidated financial statements.

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Notes to the consolidated interim condensed financial statements (continued)

4 Determination of fair values

The fair value of non-derivative financial instruments is estimated for disclosure purposes as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

5 Financial risk management

During the period the Company had the same exposure to financial risks as those which existed as at, and during, the year ended 31 December 2013.

6 Operating segments

Operating segments are identified on the basis of internal reports on components of the Group that are regularly reviewed by the Board of Directors, the chief operating decision maker, to allocate resources to a segment and assess its performance.

Management has determined the following as reportable segments:

- ▶ Electricity transmission in Moscow;
- ▶ Electricity transmission in the Moscow region;
- ▶ Connection services in Moscow;
- ▶ Connection services in the Moscow region.

Other activities mainly represent rental income, installation services, repair and technical maintenance of electrical equipment, which have been included in the "other". None of these items meets any of the quantitative thresholds for determining reportable segments in the six months ended 30 June 2014 or the six months ended 30 June 2013.

The segment revenue and profit/(loss) before income tax for the six months ended 30 June 2014 are as follows (unaudited):

| '000 RUB | Electricity transmission | Connection services | Other | Total |
|---|-----------------------------|------------------------|----------|-------------------|
| Revenues | | | | |
| External revenues | 55 830 999 | 3 134 637 | 293 514 | 59 259 150 |
| Moscow | 28 067 844 | 1 773 783 | 269 515 | 30 111 142 |
| Moscow Region | 27 763 155 | 1 360 854 | 23 999 | 29 148 008 |
| Inter-segment revenue | – | – | 718 438 | 718 438 |
| Moscow | – | – | 473 962 | 473 962 |
| Moscow Region | – | – | 244 476 | 244 476 |
| Reportable segment profit/(loss) before income tax | | | | |
| Moscow | 3 909 687 | 2 497 206 | 38 871 | 6 445 764 |
| Moscow Region | 3 022 966 | 1 570 130 | 57 353 | 4 650 449 |
| Moscow Region | 886 721 | 927 076 | (18 482) | 1 795 315 |

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Notes to the consolidated interim condensed financial statements (continued)

6 Operating segments (continued)

The segment revenue and profit/(loss) before income tax for the six months ended 30 June 2013 are as follows (unaudited):

| '000 RUB (as previously reported) | Electricity transmission | Connection services | Other | Total |
|---|--------------------------|---------------------|---------|-------------------|
| Revenues | | | | |
| External revenues | 54 222 717 | 5 015 033 | 446 058 | 59 683 808 |
| Moscow | 26 527 777 | 3 305 957 | 409 173 | 30 242 907 |
| Moscow Region | 27 694 940 | 1 709 076 | 36 885 | 29 440 901 |
| Inter-segment revenue | – | – | 580 419 | 580 419 |
| Moscow | – | – | 455 442 | 455 442 |
| Moscow Region | – | – | 124 977 | 124 977 |
| Reportable segment profit/(loss) before income tax | | | | |
| | 9 026 764 | 4 603 185 | 103 053 | 13 733 002 |
| Moscow | 5 370 231 | 3 086 179 | 112 690 | 8 569 100 |
| Moscow Region | 3 656 533 | 1 517 006 | (9 637) | 5 163 902 |

Segment assets are presented in the table below:

| '000 RUB | Electricity transmission | Connection services | Other | Unallocated | Total |
|---------------------------------|--------------------------|---------------------|------------------|-------------------|--------------------|
| 30 June 2014 (unaudited) | | | | | |
| Total assets | 274 177 663 | 15 621 078 | 3 757 936 | 24 048 837 | 317 605 514 |
| Moscow | 181 072 330 | 13 533 217 | 3 003 972 | – | 197 609 519 |
| Moscow Region | 93 105 333 | 2 087 861 | 753 964 | – | 95 947 158 |
| Unallocated | – | – | – | 24 048 837 | 24 048 837 |
| 31 December 2013 | | | | | |
| Total assets | 263 205 648 | 22 123 570 | 3 482 313 | 22 486 491 | 311 298 022 |
| Moscow | 173 445 576 | 12 922 398 | 2 856 782 | – | 189 224 756 |
| Moscow Region | 89 760 072 | 9 201 172 | 625 531 | – | 99 586 775 |
| Unallocated | – | – | – | 22 486 491 | 22 486 491 |

Segment liabilities are presented in the table below:

| '000 RUB | Electricity transmission | Connection services | Other | Unallocated | Total |
|---------------------------------|--------------------------|---------------------|------------------|-------------------|--------------------|
| 30 June 2014 (unaudited) | | | | | |
| Total liabilities | 71 614 033 | 46 915 317 | 1 051 391 | 14 406 930 | 133 987 671 |
| Moscow | 67 753 958 | 30 165 689 | 736 265 | – | 98 655 912 |
| Moscow Region | 3 860 075 | 16 749 628 | 315 126 | – | 20 924 829 |
| Unallocated | – | – | – | 14 406 930 | 14 406 930 |
| 31 December 2013 | | | | | |
| Total liabilities | 71 471 924 | 44 142 429 | 1 125 893 | 10 352 924 | 127 093 170 |
| Moscow | 66 784 044 | 28 351 633 | 844 442 | – | 95 980 119 |
| Moscow Region | 4 687 880 | 15 790 796 | 281 451 | – | 20 760 127 |
| Unallocated | – | – | – | 10 352 924 | 10 352 924 |

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Notes to the consolidated interim condensed financial statements (continued)

6 Operating segments (continued)

Reconciliation of reportable segment profit:

| '000 RUB | 6 months ended 30 June 2014 (unaudited) | 6 months ended 30 June 2013 (unaudited) |
|--|---|---|
| Reportable segment profit | 6 406 893 | 13 629 949 |
| Other profit or loss | 38 871 | 103 053 |
| Unallocated | (2 112 714) | (4 950 402) |
| Total profit before income tax per Russian Accounting Standards | 4 333 050 | 8 782 600 |
| Expenses associated with leased property, plant and equipment | 104 622 | 1 065 955 |
| Borrowing costs capitalized | 117 957 | 71 976 |
| Depreciation and amortisation | 1 010 896 | 772 581 |
| Impairment loss on property, plant and equipment | – | (318 906) |
| Gain/(loss) on disposal of property, plant and equipment | 56 315 | (217 333) |
| Reversal of expenses on connection services | 11 153 | 1 878 |
| Release of allowance (charge) for impairment of accounts receivable | 313 599 | (289 185) |
| Provision for legal claims | (19 967) | 158 768 |
| Provision for unused vacations and bonuses | (616 825) | (633 847) |
| Effect of loan discounting | (19 815) | (31 793) |
| Employee benefits obligation | 435 002 | (378 288) |
| Other items | 81 062 | (103 404) |
| Consolidated profit before income tax per IFRS | 5 807 049 | 8 881 002 |

The segment disclosure was prepared in accordance with 2013 year segment disclosure. However, for the purpose of preparation Consolidated interim condensed financial statements the Group does not present reconciliation totals of segment assets and segment liabilities as required by para 21 (c) IFRS 8 *Operating segments*.

Segment operating results that are reported to the Group's chief operating decision maker are determined based on the income and expenses calculated in accordance with Russian Accounting Standards. Segment operating results represent the profit earned by each segment without allocation of finance income and expenses, other income and expenses which are included in "unallocated" component.

Major customer

In six months ended 30 June 2014, revenue from one customer of the Group's electricity transmission segment represented approximately 82% (RUB 49 152 500 thousand) of the Group's total revenue (six months ended 30 June 2013: 78%; RUB 47 455 970 thousand).

7 Revenue

During the six months ended 30 June 2014 revenue amounted to RUB 60 273 466 thousand (six months ended 30 June 2013: RUB 61 231 364 thousand) and included revenue from electricity transmission services in the amount of RUB 55 830 999 thousand (six months ended 30 June 2013: RUB 54 222 717 thousand) and revenue from technological connection services in the amount of RUB 4 059 694 thousand (six months ended 30 June 2013: RUB 6 551 304 thousand).

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Notes to the consolidated interim condensed financial statements (continued)

8 Operating expenses, net

During the six months ended 30 June 2014 operating expenses, net amounted to RUB 54 372 998 thousand (six months ended 30 June 2013: RUB 51 555 113 thousand) and mainly included expenses relating to electricity transmission in the amount of RUB 22 533 788 thousand (six months ended 30 June 2013: RUB 17 223 881 thousand), purchased electricity for compensation of technological losses in the amount of RUB 5 382 985 thousand (six months ended 30 June 2013: RUB 5 789 005 thousand), employee benefits in the amount of RUB 9 131 822 thousand (six months ended 30 June 2013: RUB 8 584 734 thousand) and depreciation and amortisation expense in the amount of RUB 10 074 400 thousand (six months ended 30 June 2013: RUB 8 586 262 thousand).

9 Property, plant and equipment

| '000 RUB | Land and buildings | Transmission networks | Transformers and transformer substations | Other | Construction in progress | Total |
|--|--------------------|-----------------------|--|---------------------|--------------------------|----------------------|
| Cost | | | | | | |
| Balance at 1 January 2013 | 28 991 195 | 134 207 718 | 48 376 241 | 57 769 094 | 35 586 201 | 304 930 449 |
| Additions (unaudited) | 140 075 | 668 210 | 151 755 | 581 776 | 11 391 163 | 12 932 979 |
| Transfers (unaudited) | 516 963 | 4 078 255 | 1 677 701 | 1 557 861 | (7 830 780) | – |
| Disposals (unaudited) | (3 374) | (175 889) | (16 895) | (18 077) | (183 185) | (397 420) |
| Balance at 30 June 2013 (unaudited) | 29 644 859 | 138 778 294 | 50 188 802 | 59 890 654 | 38 963 399 | 317 466 008 |
| Depreciation | | | | | | |
| Balance at 1 January 2013 | (5 547 189) | (31 415 817) | (11 943 529) | (28 601 839) | (774 936) | (78 283 310) |
| Depreciation charge (unaudited) | (481 022) | (3 475 489) | (1 676 386) | (2 870 137) | – | (8 503 034) |
| Impairment losses (unaudited) | – | – | – | – | (318 906) | (318 906) |
| Disposals (unaudited) | 1 026 | 62 418 | 5 926 | 14 204 | 89 | 83 663 |
| Balance at 30 June 2013 (unaudited) | (6 027 185) | (34 828 888) | (13 613 989) | (31 457 772) | (1 093 753) | (87 021 587) |
| Net book value | | | | | | |
| At 1 January 2013 | 23 444 006 | 102 791 901 | 36 432 712 | 29 167 255 | 34 811 265 | 226 647 139 |
| At 30 June 2013 (unaudited) | 23 617 674 | 103 949 406 | 36 574 813 | 28 432 882 | 37 869 646 | 230 444 421 |
| Cost | | | | | | |
| Balance at 1 January 2014 | 34 315 946 | 154 265 196 | 56 401 031 | 68 974 491 | 35 134 014 | 349 090 678 |
| Additions (unaudited) | 2 332 | – | – | 14 226 | 16 428 068 | 16 444 626 |
| Transfers (unaudited) | 86 740 | 4 999 868 | 1 655 137 | 575 110 | (7 316 855) | – |
| Disposals (unaudited) | (3 946) | (135 443) | (15 035) | (55 842) | (2 615) | (212 881) |
| Balance at 30 June 2014 (unaudited) | 34 401 072 | 159 129 621 | 58 041 133 | 69 507 985 | 44 242 612 | 365 322 423 |
| Depreciation | | | | | | |
| Balance at 1 January 2014 | (6 522 874) | (38 395 910) | (15 418 383) | (34 598 455) | (920 969) | (95 856 591) |
| Depreciation charge (unaudited) | (552 638) | (4 003 524) | (2 003 895) | (3 453 520) | – | (10 013 577) |
| Disposals (unaudited) | 609 | 34 406 | 4 755 | 52 590 | – | 92 360 |
| Balance at 30 June 2014 (unaudited) | (7 074 903) | (42 365 028) | (17 417 523) | (37 999 385) | (920 969) | (105 777 808) |
| Net book value | | | | | | |
| At 1 January 2014 | 27 793 072 | 115 869 286 | 40 982 648 | 34 376 036 | 34 213 045 | 253 234 087 |
| At 30 June 2014 (unaudited) | 27 326 169 | 116 764 593 | 40 623 610 | 31 508 600 | 43 321 643 | 259 544 615 |

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Notes to the consolidated interim condensed financial statements (continued)

9 Property, plant and equipment (continued)

Capitalised interest

Borrowing costs totalling RUB 870 447 thousand as at 30 June 2014 with a capitalisation rate of 8.18% (31 December 2013: RUB 1 973 801 thousand with a capitalisation rate of 8.37%) were included in the cost of property, plant and equipment and represent interest on loans.

10 Equity

(a) Share capital

| Share capital | Ordinary shares 30 June 2014 | Ordinary shares 31 December 2013 |
|---------------------------|---|---|
| Issued shares, fully paid | 48 707 091 574 | 48 707 091 574 |
| Par value (in RUB) | RUB 0.50 | RUB 0.50 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

(b) Treasury shares

As at 30 June 2014 and 31 December 2013 the Group did not hold any of its own shares.

(c) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles.

At the annual shareholders meeting held on 24 June 2014 the decision was made to declare dividends for the year 2013 for ordinary shares in the amount of RUB 2 910 249 thousand (RUB 0.05975 per share).

At the annual shareholders meeting held on 26 June 2013 the decision was made to declare dividends for the year 2012 for ordinary shares in the amount of RUB 4 296 014 thousand (RUB 0.088 per share).

11 Earnings per share

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

| | 30 June 2014 | 30 June 2013 |
|--|---------------------|---------------------|
| Number of outstanding shares | 48 707 091 574 | 48 707 091 574 |
| Profit for the period attributable to the shareholders of JSC MOESK ('000 RUB) | 4 253 552 | 7 248 384 |
| Earnings per share (RUB) | 0.0873 | 0.1488 |

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Notes to the consolidated interim condensed financial statements (continued)

12 Loans and borrowings

This note provides information about the Group's loans and borrowings.

| '000 RUB | 30 June 2014 | 31 December 2013 |
|--|---------------------|-------------------------|
| Non-current | | |
| Unsecured bank facility | 34 821 317 | 36 721 317 |
| Unsecured bond issues | 15 581 159 | 15 568 037 |
| Total non-current | 50 402 476 | 52 289 354 |
| Current | | |
| Unsecured bank facility | 40 100 | 110 659 |
| Current portion of finance lease liability | – | 6 |
| Current portion of bond issues | 469 973 | 492 760 |
| Current portion of unsecured bank facility | 8 403 428 | 5 392 909 |
| Total current | 8 913 501 | 5 996 334 |

The Group raised the following bank loans during the six months ended 30 June 2014:

| Amount | Interest rate | Maturity |
|---------------|----------------------|-----------------|
| 4 100 000* | 9.16% | 10.02.2016 |

The Group repaid the following significant bank facilities during the six months ended 30 June 2014:

| | Amount |
|--------|---------------|
| Loans* | 6 000 000 |

* Loans from state-controlled banks.

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Notes to the consolidated interim condensed financial statements (continued)

12 Loans and borrowings (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans and bonds were as follows:

| '000 RUB | Currency | 30 June 2014 | 31 December 2013 | Year of maturity | 30 June 2014 | | 31 December 2013 | |
|---------------------------|----------|-----------------------|-----------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| | | Nominal interest rate | Nominal interest rate | | Face value | Carrying amount | Face value | Carrying amount |
| Unsecured bonds | RUB | – | – | 2024 | 980 875 | 706 241 | 980 875 | 717 227 |
| Unsecured bank facility* | RUB | 8.00% | 8.00% | 2018 | 10 010 960 | 10 010 960 | 10 013 151 | 10 013 151 |
| Unsecured bank facility* | RUB | 8.00% | 8.00% | 2018 | 8 530 655 | 8 530 655 | 8 521 317 | 8 521 317 |
| Unsecured bank facility* | RUB | 8.54% | – | 2015 | 3 003 510 | 3 003 510 | – | – |
| Unsecured bank facility* | RUB | 9.16% | – | 2017 | 4 105 145 | 4 105 145 | – | – |
| Unsecured bank facility* | RUB | 7.80% | 7.80% | 2014 | 2 002 137 | 2 002 137 | 2 002 565 | 2 002 565 |
| Unsecured bank facility* | RUB | 7.80% | 7.80% | 2014 | 2 002 137 | 2 002 137 | 2 002 565 | 2 002 565 |
| Unsecured bank facility* | RUB | 7.72% | 7.72% | 2015 | 3 001 904 | 3 001 904 | 3 002 539 | 3 002 539 |
| Unsecured bank facility* | RUB | 7.72% | 7.72% | 2015 | 3 202 031 | 3 202 031 | 3 202 708 | 3 202 708 |
| Unsecured bank facility* | RUB | 7.72% | 7.72% | 2015 | 1 500 952 | 1 500 952 | 1 501 269 | 1 501 269 |
| Unsecured bank facility* | RUB | 6.87% | 6.87% | 2014 | 1 361 567 | 1 361 567 | 1 361 823 | 1 361 823 |
| Unsecured bank facility* | RUB | 7.46% | 7.46% | 2016 | 2 501 533 | 2 501 533 | 2 502 044 | 2 502 044 |
| Unsecured bank facility* | RUB | 8.08% | 8.08% | 2018 | 2 002 214 | 2 002 214 | 2 002 655 | 2 002 655 |
| Unsecured bank facility | RUB | 15.00% | – | 2014 | 11 500 | 11 500 | – | – |
| Unsecured bank facility | RUB | – | 7.94% | 2014 | – | – | 52 449 | 52 449 |
| Unsecured bank facility | RUB | 12.50% | 12.50% | 2014 | 28 600 | 28 600 | 59 800 | 59 800 |
| Unsecured bonds (BO-1) | RUB | 8.80% | 8.80% | 2015 | 5 121 755 | 5 117 133 | 5 122 961 | 5 116 458 |
| Unsecured bonds (BO-2) | RUB | 8.80% | 8.80% | 2015 | 5 075 946 | 5 070 865 | 5 077 151 | 5 070 209 |
| Unsecured bonds (BO-3) | RUB | 8.50% | 8.50% | 2016 | 5 160 671 | 5 156 893 | 5 161 836 | 5 156 903 |
| Finance lease liabilities | RUB | – | – | – | – | – | – | 6 |
| | | | | | 59 604 092 | 59 315 977 | 58 567 708 | 58 285 688 |

* Loans from state controlled entity

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Notes to the consolidated interim condensed financial statements (continued)

13 Provisions

| '000 RUB | <u>Legal claims</u> |
|---------------------------------------|---------------------|
| Balance at 1 January 2013 | 3 172 685 |
| Provisions accrued during the year | 440 371 |
| Provisions reversed during the year | (1 628 533) |
| Provisions used during the year | (1 537 309) |
| Balance at 31 December 2013 | 447 214 |
| Provisions accrued during the period | 392 561 |
| Provisions reversed during the period | (106 040) |
| Provisions used during the period | (61 668) |
| Balance at 30 June 2014 | 672 067 |

Provision for legal claims relates to the claims brought against the Group within the ordinary course of business. Management believes, after taking appropriate legal advice, that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

14 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2013. Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximates their carrying amount. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the six-months end 30 June 2014.

15 Capital commitments

Future capital expenditures for which contracts relates to capital construction of power grid facilities have been signed as at 30 June 2014 amount to RUB 31 776 771 thousand (31 December 2013: RUB 37 970 177 thousand). During the six-month period ended 30 June 2014 the Group has not entered into new finance lease agreements for the items of property, plant and equipment.

16 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

The Group is party to certain legal proceedings arising in the ordinary course of business. Management does not believe that these matters will have a material adverse effect on the Group's operating results.

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Notes to the consolidated interim condensed financial statements (continued)

16 Contingencies (continued)

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated interim condensed financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Environmental matters

The Company and its predecessors have operated in the electric transmission industry in the Russian Federation for years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Management periodically evaluates its obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage for the Group.

17 Related party transactions

JSC MOESK operates in an economic regime dominated by entities directly or indirectly controlled by the Russian Federation through its government-related entities. JSC MOESK has transactions with other government-related entities including but not limited to sales and purchases of goods and ancillary materials, rendering and receiving services, leasing of assets, and use of public utilities.

These transactions are conducted in the ordinary course of JSC MOESK's business on terms comparable to those with other entities that are not government-related. JSC MOESK has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

(a) Control relationships

As at 30 June 2014 the Parent of the Group was JSC "Russian Grids", a state controlled entity.

The party with ultimate control over the Group is the Russian Federation, which held the majority of the voting rights of JSC "Russian Grids".

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Notes to the consolidated interim condensed financial statements (continued)

17 Related party transactions (continued)

(b) Transactions with management and close family members

There were no transactions or balances with key management and close family members during the period except their remuneration in the form of salary and bonuses.

(i) Management remuneration

Total remuneration in the form of salary and bonuses to the key management and the members of the Board of Directors during the six months ended 30 June 2014 was RUB 525 842 thousand (six months ended 30 June 2013: RUB 326 797 thousand).

(c) Transactions with state-controlled entities

In the course of its operating activities the Group is engaged in significant transactions with state-controlled entities. Revenues and purchases from state-controlled entities are measured at regulated tariffs, where applicable; in other cases revenues and purchases are measured at normal market prices.

Revenues from state-controlled entities for the six months ended 30 June 2014 constitute 84% (six months ended 30 June 2013: 80%) of total Group revenues, including 91% (six months ended 30 June 2013: 89%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the six months ended 30 June 2014 constitute 79% (the six months ended 30 June 2013: 71%) of total transmission costs.

The most significant loans from state-controlled entities are disclosed in Note 12.

(d) Pricing policies

Revenue from related parties for electricity transmission is based on the tariffs determined by the governmental bodies. Other related party transactions are based on normal market prices.

18 Events subsequent to the reporting date

On 31 July 2014 JSC MOESK concluded an agreement for revolving credit line with a limit of amount RUB 10 000 000 thousand with OJSC "Alfa-bank" at the annual interest rate of 11.5%. The credit line is payable by 31 July 2017. The first credit tranche in the amount of RUB 3 000 000 thousand was received.

On 14 August 2014 the Group paid in cash RUB 211 900 thousand of coupon income on bond (BO-3).

On 8 July 2014 the Company issued a loan to LLC "Centre of payments" in the amount of RUB 1 000 000 thousand at the annual interest rate of 14%, with maturity date 31 December 2014.

On 24 July 2014, the Company made a dividend payment to shareholders for the year 2013 for ordinary shares in the amount of RUB 2 910 249 thousand.