PJSC “FGC UES”

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

IAS 34 “INTERIM FINANCIAL REPORTING”

AS AT AND FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2018

(UNAUDITED)

CONTENTS

Condensed Consolidated Interim Statement of Financial Position (Unaudited, except for balances as at 31 December / 1 January)
(in millions of Russian Rouble unless otherwise stated)

	Notes	30 September 2018	31 December 2017 (restated*)	1 January 2017 (restated*)
ASSETS				
Non-current assets				
Property, plant and equipment	5	967,646	933,076	845,783
Intangible assets		6,057	6,303	7,320
Investments in associates and joint ventures		1,390	1,136	1,160
Financial investments	6	40,112	67,403	76,537
Deferred income tax assets		298	55	14
Long-term accounts receivable	8	82,173	69,350	45,145
Other non-current assets		2,009	960	1,853
Total non-current assets		**1,099,685**	**1,078,283**	**977,812**
Current assets				
Cash and cash equivalents	7	29,284	42,535	44,404
Bank deposits	7	2,382	-	450
Accounts receivable and prepayments	8	60,229	45,437	58,187
Income tax prepayments		299	211	305
Inventories		16,493	15,907	14,900
Other current assets		116	111	140
Total current assets		**108,803**	**104,201**	**118,386**
TOTAL ASSETS		**1,208,488**	**1,182,484**	**1,096,198**
EQUITY AND LIABILITIES				
Equity				
Share capital: Ordinary shares	9	637,333	637,333	637,333
Treasury shares	9	(4,719)	(4,719)	(4,719)
Share premium		10,501	10,501	10,501
Reserves		28,187	40,482	49,093
Retained earnings		179,392	117,188	35,673
Equity attributable to shareholders of FGC UES		**850,694**	**800,785**	**727,881**
Non-controlling interests		(281)	(546)	(721)
Total equity		**850,413**	**800,239**	**727,160**
Non-current liabilities				
Deferred income tax liabilities		38,177	36,218	25,778
Non-current debt	11	216,388	233,862	236,954
Long-term accounts payable		23,011	14,864	-
Deferred income		920	966	919
Retirement benefit obligations		7,022	7,617	5,959
Total non-current liabilities		**285,518**	**293,527**	**269,610**
Current liabilities				
Accounts payable to shareholders of FGC UES	9	208	146	73
Current debt and current portion of non-current debt	11	19,601	23,988	29,660
Accounts payable and accrued charges	12	52,733	60,925	62,059
Income tax payable		15	3,659	7,636
Total current liabilities		**72,557**	**88,718**	**99,428**
Total liabilities		**358,075**	**382,245**	**369,038**
TOTAL EQUITY AND LIABILITIES		**1,208,488**	**1,182,484**	**1,096,198**

* The amounts shown here do not correspond to the 2017 consolidated financial statements and reflect change in accounting policy to measuring property, plant and equiment (for details see Note 3).

15 November 2018

Chairman of the Management Board A. E. Murov

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 September		Nine months ended 30 September	
		2018	**2017 (restated*)**	**2018**	**2017 (restated*)**
Revenues	13	56,939	58,461	174,395	160,080
Other operating income		1,516	840	4,362	4,340
Operating expenses	14	(37,834)	(33,874)	(113,984)	(90,304)
Loss on regain of control of subsidiary		-	-	-	(12,327)
Reversal of impairment of property, plant and equipment, net	5	537	293	719	299
Operating profit		**21,158**	**25,720**	**65,492**	**62,088**
Finance income	15	2,253	3,049	9,610	11,039
Finance costs	16	(967)	(1,116)	(3,462)	(3,584)
Share of result of associates		94	8	115	14
Profit before income tax		**22,538**	**27,661**	**71,755**	**69,557**
Income tax expense	10	(4,452)	(5,940)	(13,800)	(17,048)
Profit for the period		**18,086**	**21,721**	**57,955**	**52,509**
Other comprehensive income / (loss)					
Items that will not be reclassified subsequently to profit or loss					
Change in fair value of financial investments	6	(3,063)	-	3,770	-
Remeasurements of retirement benefit obligations		699	(121)	961	(408)
Income tax relating to items that will not be reclassified		(77)	6	6,528	13
Total items that will not be reclassified to profit or loss		**(2,441)**	**(115)**	**11,259**	**(395)**
Items that may be reclassified subsequently to profit or loss					
Change in fair value of financial investments	6	-	(2,225)	-	(2,816)
Foreign currency translation difference		(22)	(83)	138	4
Income tax relating to items that will be reclassified		-	444	-	562
Total items that may be reclassified to profit or loss		**(22)**	**(1,864)**	**138**	**(2,250)**
Other comprehensive loss / (income) for the period, net of income tax		**(2,463)**	**(1,979)**	**11,397**	**(2,645)**
Total comprehensive income for the period		**15,623**	**19,742**	**69,352**	**49,864**
Profit attributable to:					
Shareholders of FGC UES	17	18,081	21,748	57,932	52,439
Non-controlling interests		5	(27)	23	70
Total comprehensive income attributable to:					
Shareholders of FGC UES		15,618	19,769	69,329	49,794
Non-controlling interests		5	(27)	23	70
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	17	**0.014**	**0.018**	**0.046**	**0.042**

* The amounts shown here do not correspond to the unaudited interim condensed consolidated financial statements for three and nine months ended 30 September 2017 and reflect change in accounting policy to measuring property, plant and equiment (for details see Note 3).

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

	Notes	Nine months ended 30 September 2018	Nine months ended 30 September 2017 (restated*)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**71,755**	**69,557**
Adjustments to reconcile profit before income tax to net cash provided by operations			
Depreciation of property, plant and equipment	5,14	24,977	22,528
(Gain)/loss on disposal of property, plant and equipment		(494)	141
Amortisation of intangible assets		878	997
Reversal of impairment of property, plant and equipment, net	5	(719)	(299)
Loss on regain of control of subsidiary		-	12,327
Share of result of associates		(115)	(14)
Accrual/(reversal) of allowance for doubtful debtors	14	1,364	(2,661)
Reversal of other provision for liabilities and charges		(655)	(1,747)
Finance income	15	(9,610)	(11,039)
Finance costs	16	3,462	3,584
Other non-cash items		5	90
Operating cash flows before working capital changes and income tax paid		**90,848**	**93,464**
Working capital changes:			
Decrease in accounts receivable and prepayments		4,789	602
Increase in inventories		(586)	(6,227)
(Increase)/decrease in other non-current assets		(932)	61
Increase/(decrease) in accounts payable and accrued charges		465	(1,780)
Income tax paid		(9,301)	(13,705)
Net cash flows generated by operating activities		**85,283**	**72,415**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(51,367)	(48,988)
Proceeds from disposal of property, plant and equipment		859	544
Purchase of intangible assets		(731)	(501)
Redemption of promissory notes		2	2
Investment in bank deposits		(22,293)	(9,372)
Redemption of bank deposits		19,911	5,578
Dividends received		2,251	2,579
Loans given		(23)	(2)
Repayment of loans given		17	1,000
Sale of financial investments		1,948	-
Interest received		2,501	5,984
Net cash flows used in investing activities		**(46,925)**	**(43,176)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from current and non-current borrowings		54	75
Repayment of non-current and current borrowings		(20,124)	(9,983)
Repayment of finance lease		(89)	(112)
Dividends paid		(18,702)	(19,427)
Interest paid		(12,244)	(14,982)
Acquisition of non-controlling interests		(504)	-
Government grants		-	124
Net cash used in financing activities		**(51,609)**	**(44,305)**
Net decrease in cash and cash equivalents		**(13,251)**	**(15,066)**
Cash and cash equivalents at the beginning of the period	7	**42,535**	**44,404**
Cash and cash equivalents at the end of the period	7	**29,284**	**29,338**

* The amounts shown here do not correspond to the unaudited interim condensed consolidated financial statements for three and nine months ended 30 September 2017 and reflect change in accounting policy to measuring property, plant and equiment (for details see Note 3).

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 interests	Total equity
As at 1 January 2018, as previously reported		**637,333**	**10,501**	**(4,719)**	**302,099**	**(144,118)**	**801,096**	**672**	**801,768**
Effect of changes in accounting policies	3	-	-	-	(261,617)	261,306	**(311)**	(1,218)	**(1,529)**
As at 1 January 2018 (restated*)		**637,333**	**10,501**	**(4,719)**	**40,482**	**117,188**	**800,785**	**(546)**	**800,239**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	57,932	**57,932**	23	**57,955**
Other comprehensive income / (loss), net of related income tax									
Change in fair value of financial investments, net of tax	6, 10	-	-	-	10,357	-	**10,357**	-	**10,357**
Remeasurements of retirement benefit obligations, net of tax		-	-	-	902	-	**902**	-	**902**
Foreign currency translation difference		-	-	-	138	-	**138**	-	**138**
Total other comprehensive income		**-**	**-**	**-**	***11,397***	**-**	***11,397***	**-**	***11,397***
Total comprehensive income for the period		-	-	-	11,397	57,932	**69,329**	23	**69,352**
Transactions with shareholders of FGC UES recorded directly in equity									
Transfer of accumulated revaluation reserve at disposal of financial investments	6	-	-	-	(23,692)	23,692	**-**	-	**-**
Dividends declared	9	-	-	-	-	(18,702)	**(18,702)**	-	**(18,702)**
Total transactions with shareholders of FGC UES		-	-	-	(23,692)	4,990	**(18,702)**	-	**(18,702)**
Changes in ownership									
Acquisition of non-controlling interests		-	-	-	-	(718)	**(718)**	242	**(476)**
Total changes in ownership		-	-	-	-	(718)	**(718)**	242	**(476)**
As at 30 September 2018		**637,333**	**10,501**	**(4,719)**	**28,187**	**179,392**	**850,694**	**(281)**	**850,413**

* The amounts shown here do not correspond to the 2017 consolidated financial statements and reflect change in accounting policy to measuring property, plant and equiment (for details see Note 3).

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 interests**	**Total equity**
As at 1 January 2017, as previously reported		**637,333**	**10,501**	**(4,719)**	**281,759**	**(198,273)**	**726,601**	**1,816**	**728,417**
Effect of changes in accounting policies	3	-	-	-	(232,666)	233,946	**1,280**	(2,537)	**(1,257)**
As at 1 January 2017 (restated*)		**637,333**	**10,501**	**(4,719)**	**49,093**	**35,673**	**727,881**	**(721)**	**727,160**
Total comprehensive income for the period									
Profit for the period		**-**	**-**	**-**	**-**	**52,439**	**52,439**	**70**	**52,509**
Other comprehensive income / (loss), net of related income tax									
Change in fair value of financial investments, net of tax	6	-	-	-	(2,254)	-	**(2,254)**	-	**(2,254)**
Remeasurements of retirement benefit obligations, net of tax		-	-	-	(395)	-	**(395)**	-	**(395)**
Foreign currency translation difference		-	-	-	4	-	**4**	-	**4**
Total other comprehensive income		**-**	**-**	**-**	***(2,645)***	**-**	***(2,645)***	**-**	***(2,645)***
Total comprehensive income for the period		-	-	-	(2,645)	52,439	**49,794**	**70**	**49,864**
Transactions with shareholders of FGC UES recorded directly in equity									
Dividends declared	9	-	-	-	-	(19,424)	**(19,424)**	(3)	**(19,427)**
Total transactions with shareholders of FGC UES		-	-	-	-	(19,424)	**(19,424)**	(3)	**(19,427)**
Changes in ownership									
Regain of control over subsidiary		-	-	-	-	-	**-**	(1,312)	**(1,312)**
Total changes in ownership		-	-	-	-	-	**-**	(1,312)	**(1,312)**
As at 30 September 2017 (restated*)		**637,333**	**10,501**	**(4,719)**	**46,448**	**68,688**	**758,251**	**(1,966)**	**756,285**

* The amounts shown here do not correspond to the unaudited interim condensed consolidated financial statements for three and nine months ended 30 September 2017 and reflect change in accounting policy to measuring property, plant and equiment (for details see Note 3).

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 “ROSSETI” (former OJSC “IDGC Holding”), the holding company of an electricity distribution group, controlled by the Government of the RF. As at 30 September 2018, FGC UES was 80.13% owned and controlled by PJSC “ROSSETI”. The remaining shares are traded on Moscow 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”. 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 2017 prepared in accordance with IFRS.

Critical accounting estimates and assumptions. In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017, except for the carrying value of property, plant and equipment (Note 3).

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 financial assets measured at fair value through other comprehensive income (Note 6). The fair value of those financial assets 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 2018 and changes in accounting policies relating to property, plant and equipment, 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 2017. 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.

The following new standards were adopted by the Group starting from the annual period beginning on 1 January 2018: IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers”. Starting from 1 January 2018 the Group also changed its accounting policy relating to measuring property, plant and equipment.

Property, plant and equipment. From 1 January 2018 the Group changed its accounting policy to measuring property, plant and equipment at cost less accumulated depreciation and impairment losses. Management believes that transition from revaluation model to cost model results in a more relevant and reliable presentation of the Group’s financial position and financial performance as the cost model is adopted by parent company of FGC UES – PJSC “ROSSETI”, as well widely used in utilities industry and by major foreign electricity transmission companies.

In accordance with IAS 8 “Accounting policies, Changes in Accounting Estmates and errors” change in accounting policy is applied retrospectively and the comparative data have been restated. The retrospective application of the change in accounting policy had the following impact on the Group’s financial position (in RR million).

(in millions of Russian Rouble unless otherwise stated)

Note 3. Summary of significant accounting policies (continued)

Changes to the Consolidated Statement of Financial Position:

As at 1 January 2017:	As previously reported	Effect of changes in accounting policy	As restated
Property, plant and equipment	846,695	(912)	845,783
Total non-current assets	**978,724**	**(912)**	**977,812**
Total assets	**1,097,110**	**(912)**	**1,096,198**
Reserves	281,759	(232,666)	49,093
(Accumulated deficit) / Retained eatnings	(198,273)	233,946	35,673
Equity attributable to shareholders of FGC UES	**726,601**	**1,280**	**727,881**
Non-controlling interests	1,816	(2,537)	(721)
Total equity	**728,417**	**(1,257)**	**727,160**
Deferred income tax liabilities	25,433	345	25,778
Total non-current liabilities	269,265	345	269,610
Total liabilities	**368,693**	**345**	**369,038**
Total equity and liabilities	**1,097,110**	**(912)**	**1,096,198**

As at 31 December 2017:	As previously reported	Effect of changes in accounting policy	As restated
Property, plant and equipment	934,417	(1,341)	933,076
Total non-current assets	**1,079,624**	**(1,341)**	**1,078,283**
Total assets	**1,183,825**	**(1,341)**	**1,182,484**
Reserves	302,099	(261,617)	40,482
(Accumulated deficit) / Retained earnings	(144,118)	261,306	117,188
Equity attributable to shareholders of FGC UES	**801,096**	**(311)**	**800,785**
Non-controlling interests	672	(1,218)	(546)
Total equity	**801,768**	**(1,529)**	**800,239**
Deferred income tax liabilities	36,030	188	36,218
Total non-current liabilities	293,339	188	293,527
Total liabilities	**382,057**	**188**	**382,245**
Total equity and liabilities	**1,183,825**	**(1,341)**	**1,182,484**

Changes to the Consolidated Statement of Profit or Loss and Other Comprehensive income:

For the nine months ended 30 September 2017:	As previously reported	Effect of changes in accounting policy	As restated
Operating expenses	(101,533)	11,229	(90,304)
Operating profit	**50,859**	**11,229**	**62,088**
Profit before income tax	**58,328**	**11,229**	**69,557**
Income tax expense	(14,811)	(2,237)	(17,048)
Profit for the period	**43,517**	**8,992**	**52,509**
Total comprehensive income for the period	**40,872**	**8,992**	**49,864**
Proft / (loss) attributable to:			
Shareholders of FGC UES	43,674	8,765	52,439
Non-controlling interests	(157)	227	70
Total comprehensive income / (loss) attributable to:			
Shareholders of FGC UES	41,029	8,765	49,794
Non-controlling interests	(157)	227	70
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	**0.035**	**0.007**	**0.042**

(in millions of Russian Rouble unless otherwise stated)

Note 3. Summary of significant accounting policies (continued)

For the three months ended 30 September 2017:	As previously reported	Effect of changes in accounting policy	As restated
Operating expenses	(37,758)	3,884	(33,874)
Operating profit	**21,836**	**3,884**	**25,720**
Profit before income tax	**23,777**	**3,884**	**27,661**
Income tax expense	(5,147)	(793)	(5,940)
Profit for the period	**18,630**	**3,091**	**21,721**
Total comprehensive income for the period	**16,651**	**3,091**	**19,742**
Proft / (loss) attributable to:			
Shareholders of FGC UES	18,746	3,002	21,748
Non-controlling interests	(116)	89	(27)
Total comprehensive income / (loss) attributable to:			
Shareholders of FGC UES	16,767	3,002	19,769
Non-controlling interests	(116)	89	(27)
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	**0.015**	**0.003**	**0.018**

IFRS 9 Financial Instruments. The standard introduces new requirements for classification and measurement of financial instruments, impairment, and hedge accounting. As the Group does not apply hedge accounting, the main changes relevant to the Group impacted its accounting policies for classification and impairment of financial instruments.

According to IFRS 9, the financial assets are classified in the following measurement categories: those to be measured subsequently at amortised cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. If a hybrid contract contains a host that is a financial asset, the classification requirements apply to the entire hybrid contract.

Financial assets are classified as at amortised cost only if both of the following criteria are met: the asset is held within a business model with the objective of collecting the contractual cash flows, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Group's available–for–sale investments were reclassified as financial assets measured at fair value through other comprehensive income. The remaining financial assets are measured at amortised cost.

Subsequent to the inintial recognition the Group's financial liabilities are measured at amortised cost.

In respect of impairment, IFRS 9 replaced the "incurred loss" model used in IAS 39, Financial instruments: Recognition and Measurement, with a new "expected credit loss" ("ECL") model that requires a more timely recognition of expected credit losses. An allowance for expected credit losses shall be recorded for financial assets classified as at amortised cost. Under IFRS 9, loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument. For trade receivables and contract assets, the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. For other financial assets classified as at amortised cost loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

In accordance with the transition provisions in IFRS 9, the Group applied the new rules retrospectively, except for the items that have already been derecognized at the date of initial application, which is 1 January 2018. The Group also used an exemption in IFRS 9 allowing not to restate prior periods presented as a result of adoption of the new classification and measurement requirements, but rather recognize any differences in the opening retained earnings as at 1 January 2018. The initial application of the standard did not result in any material changes in their measurement, therefore, the opening retained earnings were not restated.

IFRS 15 Revenue from Contracts with Customers. The Group recognises revenue when (or as) goods or services (ie an asset) are transferred to the customer, at the transaction price which is the the amount of the consideration in a contract to which the Group expects to be entitled in exchange of promised goods or services, net of value added tax.

(in millions of Russian Rouble unless otherwise stated)

Note 3. Summary of significant accounting policies (continued)

Electricity transmission services and electricity sales. Revenue from rendering the electricity transmission services is recognized over the period (billing month) and measured by output method (based on the volume of electricity transmitted). Tariff for the electricity transmission services is set by Federal Antimonopoly Service.

Revenue from sales of electricity and capacity is recognized over the period (billing month) and measured by output method (based on the volume of electricity or capacity sold). Electricity is being sold on Russian regulated wholesale market at rates calculated by trading operator based on the regulatory mechanisms established by the Government of RF.

Technological connection services. Revenue from connection services represents non-refundable fee for connecting the customer to electricity gird network and recognized when the customer is connected to the network. Both payment for technological connection based on individual project and standart tariffs for connection to the grid are approved by Federal Antimonopoly Service and do not depend on tariff for electricity transmission.

The Group made judgment that connection service is a separate performance obligation that is recognised when the respective services are provided. The customer obtains distinct connection service and there is no any other promises beyond the connection services agreement. Practically and in accordance with the law on electricity market, connection services and electricity transmission agreements are negotiated separately with different customers as different packages and with different commercial objectives with no relation in the contracts in pricing, purpose, acceptance, or type of service.

Construction services. Revenue from construction services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Other revenue. Other revenues are recognized when the customer obtains control over the asset.

In accordance with IFRS 15 transition requirements, the Group applied new Standard using modified retrospective approach with with cumulative effect of initially applying a Standard to be recognized as adjustment to retained earnings as at 1 January 2018.

The application of the standard had no material impact on the Group's condensed consolidated interim financial statements and therefore the retained earnings as at January 2018 were not restated.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the Group's condensed consolidated interim financial statements.

Note 4. Balances and transactions with related parties

Government-related entities. During the three and nine months ended 30 September 2018 and 2017 the Group had the following significant transactions with government-related entities:

	Three months ended 30 September		**Nine months ended 30 September**	
	2018	**2017**	**2018**	**2017**
Transmission revenue	42,895	39,963	126,666	116,699
Electricity sales	1,008	566	3,613	2,463
Construction services	261	2,151	3,595	3,715
Connection services	12	13	68	390
Dividend income	-	103	2,251	2,579
Net accrual of allowance for doubtful debtors	(615)	(3,854)	(1,078)	(4,661)
Purchased electricity for production needs	(1,547)	(1,698)	(4,660)	(4,499)
Rent	(280)	(250)	(700)	(690)

(in millions of Russian Rouble unless otherwise stated)

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

Significant balances with government-related entities are presented below:

	30 September 2018	31 December 2017
Cash and cash equivalents	23,556	33,750
Bank deposits	1,434	-
Long-term accounts receivable (net of allowance for doubtful debtors of RR 1,209 million as at 30 September 2018 and RR 1,596 million as at 31 December 2017)	76,840	67,126
Other non –current assets	12	12
Other current assets	8	7
Trade receivables (net of allowance for doubtful debtors of RR 5,007 million as at 30 September 2018 and RR 4,431 million as at 31 December 2017)	30,580	29,175
Other receivables (net of allowance for doubtful debtors of RR 1,419 million as at 30 September 2018 and RR 1,399 million as at 31 December 2017)	6,824	1,728
Advances to suppliers (net of allowance for doubtful debtors of RR 766 million as at 30 September 2018 and RR 834 million as at 31 December 2017)	179	130
Financial investments	40,112	67,403
Advances to construction companies and suppliers of property, plant and equipment (included in CIP)	443	360
Accounts payable to shareholders of FGC UES	(208)	(146)
Non-current debt	(145)	(1)
Current debt	(85)	(300)
Accounts payable and accrued charges	(12,444)	(15,924)

As at 30 September 2018 the Group had long-term undrawn committed financing facilities with government-related banks of RR 75,000 million (as at 31 December 2017: RR 95,000 million) with the interest rates not exceeding 14% and the maturity dates from 2019 to 2020.

Short-term undrawn committed financing facilities with government-related banks amounted to RR 80,350 million as at 30 September 2018 (31 December 2017: RR 25,350 million) with the interest rates not exceeding 14.95%.

Tax balances and charges are disclosed in Notes 8, 12 and 14. Tax transactions are disclosed in the Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income.

As at 30 September 2018 long-term accounts receivable and other receivables includes amounts of RR 14,713 million and RR 5,086 million respectively due from JSC “Inter RAO Capital” under the terms of share sales agreement. The Group has sold part of its financial investment in PJSC “INTER RAO UES” (Note 6).

Parent company. During the three and nine month ended 30 September 2018 and 30 September 2017 the Group had the following significant transactions with the parent company of FGC UES - PJSC “ROSSETI”:

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Revenues	83	190	275	356
Operating expenses	(56)	(191)	(413)	(547)

Significant balances with the parent company are presented below:

	30 September 2018	31 December 2017
Trade receivables	39	10
Financial investments	392	1,380
Accounts payable and accrued charges	(166)	(41)

(in millions of Russian Rouble unless otherwise stated)

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

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 nine months ended 30 September 2018 and 2017 was as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
Short-term compensation, including salary and bonuses	56	20	259	249
Post-employment benefits and other long-term benefits	2	(10)	9	10
Total	**58**	**10**	**268**	**259**

Remuneration provided to the members of the Board of Directors for the nine months ended 30 September 2018 amounted to RR 7 million (30 September 2017: RR 7 million).

(in millions of Russian Rouble unless otherwise stated)

Note 5. Property, plant and equipment

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Cost						
Balance as at 1 January 2018 (restated)	30,859	565,477	664,241	283,536	77,914	1,622,027
Additions	-	-	26	58,128	1,039	59,193
Transfers	159	1,736	21,912	(25,109)	1,302	-
Disposals	(94)	(46)	(617)	(105)	(284)	(1,146)
Balance as at 30 September 2018	30,924	567,167	685,562	316,450	79,971	1,680,074
Depreciation and impairment						
Balance as at 1 January 2018 (restated)	(6,504)	(259,750)	(318,948)	(56,987)	(46,762)	(688,951)
Depreciation charge	(340)	(7,398)	(14,275)	-	(2,964)	(24,977)
Reversal of impairment	-	-	-	719	-	719
Transfers	(4)	(35)	(952)	1,000	(9)	-
Disposals	18	26	463	-	274	781
Balance as at 30 September 2018	(6,830)	(267,157)	(333,712)	(55,268)	(49,461)	(712,428)
Net book value as at 1 January 2018 (restated)	24,355	305,727	345,293	226,549	31,152	933,076
Net book value as at 30 September 2018	24,094	300,010	351,850	261,182	30,510	967,646

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Cost						
Balance as at 1 January 2017 (restated)	29,674	548,559	615,557	247,327	73,994	1,515,111
Additions	193	68	124	56,709	1,299	58,393
Transfers	36	1,683	8,629	(10,942)	594	-
Disposals	(18)	(184)	(607)	(613)	(426)	(1,848)
Balance as at 30 September 2017 (restated)	29,885	550,126	623,703	292,481	75,461	1,571,656
Depreciation and impairment						
Balance as at 1 January 2017 (restated)	(6,188)	(254,184)	(304,513)	(60,415)	(44,028)	(669,328)
Depreciation charge	(292)	(6,987)	(12,507)	-	(2,742)	(22,528)
Reversal of impairment	-	-	-	299	-	299
Transfers	(1)	(24)	(452)	502	(25)	-
Disposals	4	159	527	-	478	1,168
Balance as at 30 September 2017 (restated)	(6,477)	(261,036)	(316,945)	(59,614)	(46,317)	(690,389)
Net book value as at 1 January 2017 (restated)	23,486	294,375	311,044	186,912	29,966	845,783
Net book value as at 30 September 2017 (restated)	23,408	289,090	306,758	232,867	29,144	881,267

(in millions of Russian Rouble unless otherwise stated)

Note 6. Financial investments

	1 January 2018	Change in fair value	Disposals	30 September 2018
PJSC “INTER RAO UES”	65,912	3,858	(30,161)	39,609
PJSC “ROSSETI”	1,380	(88)	(900)	392
Other	111	-	-	111
Total	**67,403**	**3,770**	**(31,061)**	**40,112**

	1 January 2017	Change in fair value	30 September 2017
PJSC “INTER RAO UES”	74,520	(2,558)	71,962
PJSC “ROSSETI”	1,906	(258)	1,648
Other	111	-	111
Total	**76,537**	**(2,816)**	**73,721**

Sale of financial investments in PJSC “INTER RAO UES”. On 29 June 2018 the Group has concluded sales agreements to sell 10,440,000 thousand shares or 10% out of its 18.57% financial investment in PJSC “INTER RAO UES” to JSC “Inter RAO Capital” (6,608,643 thousand shares or 6.33%), “DVB Leasing” LLC (3,132,000 thousand shares or 3%) and “Praktika” LLC (699,357 thousand shares or 0.67%) for the price of RR 3.3463 per share. As at 30 September 2018 6,608,643 and 3,132,000 thousand shares of PJSC “INTER RAO UES” were transferred to JSC “Inter RAO Capital” and “DVB Leasing” LLC respectively.

During the nine months ended 30 September 2018 the Group has reclassified 6,608,643 and 3,132,000 thousand shares sold to JSC “Inter RAO Capital” and “DVB Leasing” LLC respectively from Level 1 to Level 3 fair value hierarchy. The fair value of shares sold as single lot has been determined based on independent appraiser report by applying income approach with due account for volume discount and payment by installments in 2019.

During the nine months ended 30 September 2018 the Group has recognized revaluation loss for financial investments amounted to RR 2,957 million relating to the part of financial investment in PJSC “INTER RAO UES” shares sold to to JSC “Inter RAO Capital” and “DVB Leasing” LLC on 29 June 2018 and on 31 July 2018 respectively. Accumulated revaluation reserve, net of tax, relating to shares disposed and amounted to RR 23,247 million has been reclassified from reserves to retained earnings.

Sale of financial investments in PJSC “ROSSETI”. On 28 August 2018 the Group has concluded sales agreement to sell 1,080,646,965 thousand shares or 0.538% financial investment in PJSC “ROSSETI” to “GENNORD PROJECTS LIMITED” for the price of RR 0.8328 per share. As at 30 September 2018 shares were transferred to “GENNORD PROJECTS LIMITED”.

During the nine months ended 30 September 2018 the Group has recognized revaluation gain for financial investments amounted to RR 13 million relating to financial investment in PJSC “ROSSETI” shares sold to “GENNORD PROJECTS LIMITED” on 28 August 2018. Accumulated revaluation reserve, net of tax, relating to shares disposed and amounted to RR 444 million has been reclassified from reserves to retained earnings.

Note 7. Cash and cash equivalents and bank deposits

	30 September 2018	31 December 2017
Cash at bank and in hand	11,493	13,259
Cash equivalents	17,791	29,276
Total cash and cash equivalents	**29,284**	**42,535**

Cash equivalents include investments in short-term deposits with original maturities of three months or less and contractual interest rate of 4.5-7.92% as at 30 September 2018 and 0.01-7.9% as at 31 December 2017.

Bank deposits

	Interest rate	Rating	Rating agency	30 September 2018	31 December 2017
JSC “Gazprombank”	6.60-7.46%	BB+	Fitch Ratings	975	-
JSC “Alfa-Bank”	8.15%	BB+	Standard & Poor's	948	-
PJSC “VTB”	6.40%	BBB-	Standard & Poor's	357	-
JSC "Rosselkhozbank"	6.55%	Ba2	Moody’s	102	-
Total bank deposits				**2,382**	**-**

Fair value of bank deposits approximates their carrying value.

(in millions of Russian Rouble unless otherwise stated)

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.

As at 30 September 2018 long-term receivables in the amount of RR 55,432 million (as at 31 December 2017: RR 56,577 million) 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 8.2-9.63%.

As at 30 September 2018 long-term receivables in the amount of RR 7,675 million (as at 31 December 2017: RR 7,381 million) relating to restructured balances for transmission services relate to receivables from related parties for which debt restructuring agreements were signed in 2016-2018 with a payment terms of 2018-2022 years and an interest rate varying from Central bank key interest rate to 14%.

As at 30 September 2018 long-term accounts receivable and other receivables includes amounts of RR 21,686 million and RR 7,497 million respectively due from JSC “Inter RAO Capital” and “DVB Leasing” LLC under the PJSC “INTER RAO UES” share sales agreement.

	30 September 2018	31 December 2017
Trade receivables		
(Net of allowance for doubtful debtors of RR 7,703 million as at 30 September 2018 and RR 6,764 million as at 31 December 2017)	39,892	35,445
Other receivables		
(Net of allowance for doubtful debtors of RR 2,981 million as at 30 September 2018 and RR 2,895 million as at 31 December 2017)	15,535	4,267
Total financial assets	**55,427**	**39,712**
VAT recoverable	1,284	1,791
Advances to suppliers		
(Net of allowance for doubtful debtors of RR 1,156 million as at 30 September 2018 and RR 888 million as at 31 December 2017)	3,381	3,801
Tax prepayments	137	133
Total short-term accounts receivable and prepayments	**60,229**	**45,437**

Trade and other receivables are not interest-bearing and are largely due in 30 to 90 days as at 30 September 2018 and 31 December 2017. Given the short period of the trade and other receivables repayment, the fair value of such receivables approximates their book value.

(in millions of Russian Rouble unless otherwise stated)

Note 9. Equity

Share capital

	Number of shares issued and fully paid		Share Capital	
	30 September 2018	**31 December 2017**	**30 September 2018**	**31 December 2017**
Ordinary shares	1,274,665,323,063	1,274,665,323,063	637,333	637,333

As at 30 September 2018 the authorised share capital comprised 1,346,805,823,831 ordinary shares with a nominal value of RR 0.5 per share.

Treasury shares. The Group through a subsidiary holds 13,727,165,278 ordinary shares in treasury at a total cost of RR 4,719 million (as at 31 December 2017: 4,719 million).

Dividends. At the Annual General Meeting in June 2018 shareholders approved the decision to distribute dividends for the year 2017 in the total amount of RR 18,884 million, RR 182 million of them relate to treasury shares. Dividends per ordinary share amounted to RR 0.1482.

At the Annual General Meeting in June 2017 shareholders approved the decision to distribute 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.

Reserves. Reserves included Revaluation reserve for financial investments, foreign currency translation reserve and remeasurement reserve for retirement benefit obligations. The Foreign currency translation reserve relates to the exchange differences arising on translation of net assets of a foreign associate.

Reserves comprised the following:

	30 September 2018	**31 December 2017 (restated)**
Revaluation reserve for financial investments, net of tax	28,991	42,326
Remeasurement reserve for retirement benefit obligations	(1,262)	(2,164)
Foreign currency translation reserve	458	320
Total reserves	**28,187**	**40,482**

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 nine months ended 30 September 2018 and 2017 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 September		Nine months ended 30 September	
	2018	**2017 (restated)**	**2018**	**2017 (restated)**
Profit before income tax	**22,538**	**27,661**	**71,755**	**69,557**
Theoretical income tax charge at the statutory tax rate of 20 percent	(4,508)	(5,532)	(14,351)	(13,911)
Tax effect of regain of control of subsidiary	-	-	-	(2,871)
Tax effect of items which are not deductible for taxation purposes	(48)	(251)	371	(53)
Movement in unrecognised deferred tax assets	104	(157)	180	(213)
Total income tax expense	**(4,452)**	**(5,940)**	**(13,800)**	**(17,048)**

During nine months ended 30 September 2018 the Group recognized decrease in deferred tax liabilities in the amount of RR 6,528 million within other comprehensive income. The movement is related mainly to deferred taxes arising from financial investments carried at fair value and resulted due to change in tax rates that are expected to apply when the Group will generate the taxable income.

(in millions of Russian Rouble unless otherwise stated)

Note 11. Non-current debt

	Effective interest rate	Due	30 September 2018	31 December 2017
Certified interest-bearing non-convertible bearer bonds:				
with fixed rates	0.1-9.35%	2019-2052	67,270	88,298
with variable rates	CPI+1-2.5%	2022-2050	150,695	151,019
Loan participation notes (LPNs)	8.45%	2019	17,574	17,943
Non-bank loans	0.1-3%	2018-2026	220	289
Finance lease liabilities	9.5%	2021	230	301
Total debt			**235,989**	**257,850**
Less: current portion of non-current bonds and LPNs			(19,511)	(23,575)
Less: current portion of non-bank loans			(4)	(112)
Less: current portion of finance lease liabilities			(86)	(301)
Total non-current debt			**216,388**	**233,862**

All debt instruments are denominated in Russian Rouble.

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

Reconciliation between carrying and fair values of financial liabilities is presented bellow.Fair value of level 1 bonds are determined based on quoted market prices at Moscow Exchange and Irish Stock Exchange.

		30 September 2018		31 December 2017	
	Level	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Non-convertible bearer bonds with fixed rates and loan participation notes	1	83,670	84,844	104,761	106,241
Non-convertible bearer bonds with variable rates	1	9,617	10,079	9,296	10,285
Total debt		**93,287**	**94,923**	**114,057**	**116,526**

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 September 2018 the Group had long-term and short-term undrawn committed financing facilities of RR 76,500 million and RR 112,850 million respectively (as at 31 December 2017: RR 96,500 million and 57,850 million) which could be used for the general purposes of the Group.

Note 12. Accounts payable and accrued charges

	30 September 2018	31 December 2017
Accounts payable to construction companies and suppliers of property, plant and equipment	20,773	22,598
Trade payables	11,208	12,452
Accrued liabilities	1,060	272
Other creditors	1,173	1,754
Total financial liabilities	**34,214**	**37,076**
Advances received	8,916	16,123
Accounts payable to employees	2,376	2,515
Taxes other than on income payable	6,072	3,294
Other provisions for liabilities and charges	1,155	1,917
Total accounts payable and accrued charges	**52,733**	**60,925**

(in millions of Russian Rouble unless otherwise stated)

Note 13. Revenue

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Transmission fee	53,868	50,283	158,786	141,031
Electricity sales	2,179	1,239	8,187	5,271
Construction services	307	5,664	4,580	9,486
Connection services	19	103	86	1,818
Other revenues	566	1,172	2,756	2,474
Total revenues	**56,939**	**58,461**	**174,395**	**160,080**

Note 14. Operating expenses

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017 (restated)	2018	2017 (restated)
Purchased electricity	9,317	7,083	27,612	14,330
Depreciation of property, plant and equipment	8,590	7,506	24,977	22,528
Employee benefit expenses and payroll taxes	7,641	6,712	21,596	19,620
Property tax	3,657	2,716	11,053	8,234
Fuel for mobile gas-turbine electricity plants	1,542	1,012	5,983	4,213
Subcontract works for construction contracts	389	3,498	2,854	5,422
Repairs and maintenance of equipment	1,384	1,178	2,510	1,953
Materials for repair	1,008	899	1,890	1,737
Materials for construction contracts	323	2,262	1,756	3,817
Business trips and transportation expenses	660	577	1,719	1,496
Accrual/(reversal) of allowance for doubtful debtors	1,008	(3,606)	1,364	(2,661)
Amortisation of intangible assets	300	335	878	997
Electricity transit	245	176	531	700
Other expenses	1,770	3,526	9,261	7,918
Total operating expenses	**37,834**	**33,874**	**113,984**	**90,304**

Note 15. Finance income

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Interest income	781	1,426	2,838	3,974
Unwinding of discount of accounts receivable	1,387	1,506	4,300	4,418
Foreign currency exchange differences	4	-	9	23
Dividend income	-	103	2,251	2,579
Other finance income	81	14	212	45
Total finance income	**2,253**	**3,049**	**9,610**	**11,039**

Note 16. Finance costs

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Interest expense	3,319	4,158	10,648	13,403
Net interest on the defined benefit obligations	136	113	418	356
Foreign currency exchange differences	10	3	31	64
Other finance costs	2	-	143	-
Total finance costs	**3,467**	**4,274**	**11,240**	**13,823**
Less: capitalised interest expenses	(2,500)	(3,158)	(7,778)	(10,239)
Total finance costs recognised in profit or loss	**967**	**1,116**	**3,462**	**3,584**

(in millions of Russian Rouble unless otherwise stated)

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

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017 (restated)**	**2018**	**2017 (restated)**
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)	18,081	21,748	57,932	52,439
Weighted average earning per share – basic and diluted (in RR)	**0.014**	**0.017**	**0.046**	**0.042**

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 nine months ended 30 September 2018 in comparison with those described in the Group’s consolidated financial statements for the year ended 31 December 2017 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 September 2018 claims made by suppliers of property, plant and equipment and other counterparties to the Group amounted to RR 6,861 million. Management belives the likelyhood of negative outcome for the Group and the respecive outflow of financial resources to settle such claims, if any, is not probable and, consequently, no provision has been made in these financial statements.

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.

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.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on these consolidated financial statements.

As at 30 September 2018 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.

Capital expenditures for which contracts have been signed amount to RR 193,347 million as at 30 September 2018 (as at 31 December 2017: RR 172,392 million) including VAT. These amounts include accounts payable to construction companies and suppliers of property, plant and equipment in the amount of RR 36,160 million as at 30 September 2018 (as at 31 December 2017: RR 36,938 million).

(in millions of Russian Rouble unless otherwise stated)

Note 19. Segment information

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

The Board of Directors of the Company has been determined as chief operating decision maker (the “CODM”) of the Group which generally analyses information relating to Transmission segment. The Board of Directors does not evaluate financial information of other components of the Group to allocate resources or assess performance and does not determine these components as segments. The key indicator of the transmissions segment performance is return on equity ratio (ROE). It is calculated based on the statutory financial statements prepared according to RAR as net profit divided by net assets. Accordingly, the measure of transmission segment profit or loss analysed by the CODM is net profit of segment based on the statutory financial statements prepared according to RAR. The other information provided to the CODM is also based on statutory financial statements prepared according to RAR.

	Transmission segment – based on statutory financial statements prepared according to RAR			
	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Revenue from external customers	54,886	50,865	160,910	144,280
Intercompany revenue	89	77	242	225
Total revenue	**54,975**	**50,942**	**161,152**	**144,505**
Segment profit for the period	4,730	8,249	33,264	27,310

	30 September 2018	31 December 2017
Total reportable segment assets (RAR)	1,435,126	1,397,077
Total reportable segment liabilities (RAR)	399,786	419,169

Statements for the three and nine months ended 30 September 2018 and 2017 is presented below:

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Total revenue from segment (RAR)	**54,975**	**50,942**	**161,152**	**144,505**
Reclassification between revenue and other income	(463)	(174)	(359)	(460)
Non-segmental revenue	2,589	7,692	14,147	16,374
Elimination of intercompany revenue	(89)	(77)	(242)	(225)
Non-recognised revenue	(69)	-	(289)	-
Other adjustments	(4)	78	(14)	(114)
Total revenue (IFRS)	**56,939**	**58,461**	**174,395**	**160,080**

(in millions of Russian Rouble unless otherwise stated)

Note 19. Segment information (continued)

A reconciliation of the reportable segment’s profit to the Condensed Consolidated Interim Financial Statements for the three and nine months ended 30 September 2018 and 2017 is presented below:

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017 (restated)**	**2018**	**2017 (restated)**
Profit for the period (RAR)	**4,730**	**8,249**	**33,264**	**27,310**
Property, plant and equipment				
Adjustment to the carrying value of property, plant and equipment	11,189	12,957	34,410	39,520
Reversal of impairment of property, plant and equipment	25	294	58	299
Financial instruments				
Re-measurement of financial investments	2,111	-	(6,852)	-
Discounting of promissory notes	8	7	22	20
Discounting of long-term accounts receivable	1,312	286	3,990	2,419
Discounting of long-term accounts payable	88	-	32	-
Consolidation				
Reversal of impairment of investments in subsidiaries	1,347	1,780	384	2,127
Reversal of adjustments to the carrying value of intercompany promissory notes	-	333	-	(110)
Other				
Non-recognised revenue and other income	217	(492)	(1,418)	(1,712)
Adjustment to provision for legal claims	1,334	833	990	2,025
Adjustment to allowance for doubtful debtors	(534)	(1)	1,014	838
Accrual of retirement benefit obligations	(48)	(65)	(361)	(188)
Write-off of research and development to expenses	28	31	93	82
Share of result of associates	94	8	115	14
Deferred tax adjustment	(1,866)	(1,929)	(4,445)	(6,382)
Other adjustments	(964)	(146)	(2,797)	1,396
Loss on regain of control of subsidiary	-	-	-	(12,327)
Non-segmental other operating loss	(985)	(424)	(544)	(2,822)
Profit for the period (IFRS)	**18,086**	**21,721**	**57,955**	**52,509**

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.