

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 2019

(UNAUDITED)

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PJSC “FGC UES”

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 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,003,840	937,277
Right-of-use assets	6	12,077	-
Intangible assets		5,728	6,638
Investments in associates and joint ventures		1,255	1,442
Financial investments	7	40,754	37,956
Deferred income tax assets		135	207
Long-term accounts receivable	8	68,438	72,699
Other non-current assets		2,189	1,306
Total non-current assets		1,134,416	1,057,525
Current assets			
Cash and cash equivalents	9	42,437	37,618
Bank deposits	9	10,573	3,811
Accounts receivable and prepayments	8	64,518	71,417
Income tax prepayments		130	56
Inventories		17,151	17,037
Other current assets		106	111
		134,915	130,050
Assets held for sale	21	-	21,467
Total current assets		134,915	151,517
TOTAL ASSETS		1,269,331	1,209,042
EQUITY AND LIABILITIES			
Equity			
Share capital: Ordinary shares	10	637,333	637,333
Treasury shares	10	(4,719)	(4,719)
Share premium		10,501	10,501
Reserves		26,709	25,167
Retained earnings		222,470	170,699
Equity attributable to shareholders of FGC UES		892,294	838,981
Non-controlling interests		164	181
Total equity		892,458	839,162
Non-current liabilities			
Deferred income tax liabilities		45,486	29,586
Non-current debt	12	210,703	224,585
Long-term accounts payable	13	24,655	15,001
Government grants		825	867
Retirement benefit obligations		6,746	5,950
Total non-current liabilities		288,415	275,989
Current liabilities			
Accounts payable to shareholders of FGC UES	10	231	213
Current debt and current portion of non-current debt	12	29,796	22,224
Accounts payable and accrued charges	13	57,959	67,608
Income tax payable		472	3,846
Total current liabilities		88,458	93,891
Total liabilities		376,873	369,880
TOTAL EQUITY AND LIABILITIES		1,269,331	1,209,042

Authorised for issue and signed on behalf of the Management Board:

18 November 2019

Chairman of the Management Board

Head of Accounting and Financial Reporting – Chief Accountant

A.E. Murov

A.P. Noskov

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

PJSC “FGC UES”

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	
		2019	2018 (restated*)	2019	2018 (restated*)
Revenues	14	58,473	56,939	173,469	174,395
Other operating income		1,100	1,516	4,836	4,362
Operating expenses	15	(36,356)	(36,474)	(106,981)	(111,164)
Gain on disposal of assets	21	-	-	10,444	-
Reversal / (accrual) of allowance for expected credit losses		2	(1,008)	(780)	(1,364)
Reversal of impairment of property, plant and equipment, net	5	31	537	2,148	719
Operating profit		23,250	21,510	83,136	66,948
Finance income	16	3,093	2,253	10,602	9,610
Finance costs	17	(1,571)	(967)	(5,240)	(3,462)
Disposal of associate		-	-	(62)	-
Share of result of associates		44	94	104	115
Profit before income tax		24,816	22,890	88,540	73,211
Income tax expense	11	(5,078)	(4,522)	(18,123)	(14,088)
Profit for the period		19,738	18,368	70,417	59,123
Other comprehensive income / (loss)					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Change in fair value of financial investments	7	(381)	(3,063)	4,964	3,770
Remeasurements of retirement benefit obligations		(867)	699	(762)	961
Income tax relating to items that will not be reclassified		4	(77)	(761)	6,528
Total items that will not be reclassified to profit or loss		(1,244)	(2,441)	3,441	11,259
<i>Items that may be reclassified subsequently to profit or loss</i>					
Foreign currency translation difference		(17)	(22)	(230)	138
Total items that may be reclassified to profit or loss		(17)	(22)	(230)	138
Other comprehensive income for the period, net of income tax		(1,261)	(2,463)	3,211	11,397
Total comprehensive income for the period		18,477	15,905	73,628	70,520
Profit attributable to:					
Shareholders of FGC UES	18	19,737	18,363	70,386	59,095
Non-controlling interests		1	5	31	28
Total comprehensive income attributable to:					
Shareholders of FGC UES		18,476	15,900	73,597	70,492
Non-controlling interests		1	5	31	28
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)					
	18	0.016	0.015	0.056	0.047

* The amounts shown here do not correspond to the unaudited interim condensed consolidated financial statements for three and nine months ended 30 September 2018 (for details see Note 3).

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

PJSC “FGC UES”

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

	Notes	Nine months ended 30 September 2019	Nine months ended 30 September 2018 (restated*)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		88,540	73,211
<i>Adjustments to reconcile profit before income tax to net cash provided by operations</i>			
Depreciation of property, plant and equipment	5,15	25,865	23,448
Depreciation of right-of-use assets	15	657	-
Gain on disposal of property, plant and equipment		(710)	(421)
Amortisation of intangible assets	15	1,202	878
Reversal of impairment of property, plant and equipment, net	5	(2,148)	(719)
Gain on disposal of assets		(10,444)	-
Share of result of associates		(104)	(115)
Accrual of allowance for expected credit losses		780	1,364
Accrual / (Reversal) of other provision for liabilities and charges		623	(655)
Disposal of associate		62	-
Finance income	16	(10,602)	(9,610)
Finance costs	17	5,240	3,462
Other non-cash operating (income) / expense		(60)	5
Operating cash flows before working capital changes and income tax paid		98,901	90,848
<i>Working capital changes:</i>			
Decrease in accounts receivable and prepayments		12,013	4,789
Increase in inventories		(113)	(586)
Increase in other current assets		(624)	(932)
(Decrease) / Increase in accounts payable and accrued charges		(1,898)	465
Income tax paid		(6,362)	(9,301)
Net cash flows generated by operating activities		101,917	85,283
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(54,715)	(51,367)
Proceeds from disposal of property, plant and equipment		1,081	859
Purchase of intangible assets		(536)	(731)
Redemption of promissory notes		2	2
Placement of bank deposits		(15,519)	(22,293)
Redemption of bank deposits		8,757	19,911
Dividends received		1,463	2,251
Loans given		(5)	(23)
Repayment of loans given		17	17
Proceeds from sale of financial investments		11,913	1,948
Interest received		2,429	2,501
Net cash flows used in investing activities		(45,113)	(46,925)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from current and non-current borrowings		22	54
Repayment of non-current and current borrowings		(17,692)	(20,124)
Repayment of the lease liabilities		(1,430)	(89)
Dividends paid		(20,258)	(18,702)
Acquisition of non-controlling interests		(74)	(504)
Interest paid		(12,553)	(12,244)
Net cash flows used in financing activities		(51,985)	(51,609)
Net increase / (decrease) in cash and cash equivalents		4,819	(13,251)
Cash and cash equivalents at the beginning of the period	9	37,618	42,535
Cash and cash equivalents at the end of the period	9	42,437	29,284

* The amounts shown here do not correspond to the unaudited interim condensed consolidated financial statements for three and nine months ended 30 September 2018 (for details see Note 3).

PJSC “FGC UES”

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited, except for balances as at 1 January)
(in millions of Russian Rouble unless otherwise stated)

	Notes	Attributable to shareholders of FGC UES					Total	Non-controlling interests	Total equity
		Share capital	Share premium	Treasury shares	Reserves	Retained earnings			
As at 1 January 2019		637,333	10,501	(4,719)	25,167	170,699	838,981	181	839,162
Total comprehensive income for the period									
Profit for the period		-	-	-	-	70,386	70,386	31	70,417
<i>Other comprehensive income / (loss), net of related income tax</i>									
Change in fair value of financial investments, net of tax	7	-	-	-	4,244	-	4,244	-	4,244
Remeasurements of retirement benefit obligations, net of tax		-	-	-	(803)	-	(803)	-	(803)
Foreign currency translation difference		-	-	-	(230)	-	(230)	-	(230)
Total other comprehensive income		-	-	-	3,211	-	3,211	-	3,211
Total comprehensive income for the period		-	-	-	3,211	70,386	73,597	31	73,628
Transactions with shareholders of FGC UES recorded directly in equity									
Transfer of accumulated revaluation reserve at disposal of financial investments		-	-	-	(1,669)	1,669	-	-	-
Dividends declared	10	-	-	-	-	(20,256)	(20,256)	(2)	(20,258)
Total transactions with shareholders of FGC UES		-	-	-	(1,669)	(18,587)	(20,256)	(2)	(20,258)
Changes in ownership									
Acquisition of non-controlling interests		-	-	-	-	(28)	(28)	(46)	(74)
Total changes in ownership		-	-	-	-	(28)	(28)	(46)	(74)
As at 30 September 2019		637,333	10,501	(4,719)	26,709	222,470	892,294	164	892,458

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

PJSC “FGC UES”

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited, except for balances as at 1 January)
(in millions of Russian Rouble unless otherwise stated)

	Notes	Attributable to shareholders of FGC UES					Total	Non-controlling interests	Total equity
		Share capital	Share premium	Treasury shares	Reserves	Retained earnings			
As at 1 January 2018, as previously reported		637,333	10,501	(4,719)	40,482	117,188	800,785	(546)	800,239
Effect of changes in comparative information	3	-	-	-	-	(43,036)	(43,036)	(57)	(43,093)
As at 1 January 2018 (restated*)		637,333	10,501	(4,719)	40,482	74,152	757,749	(603)	757,146
Total comprehensive income for the period									
Profit for the period (restated*)		-	-	-	-	59,095	59,095	28	59,123
<i>Other comprehensive income / (loss), net of related income tax</i>									
Change in fair value of financial investments, net of tax	7	-	-	-	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	59,095	70,492	28	70,520
Transactions with shareholders of FGC UES recorded directly in equity									
Transfer of accumulated revaluation reserve at disposal of financial investments		-	-	-	(23,692)	23,692	-	-	-
Dividends declared	10	-	-	-	-	(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		-	-	-	-	(764)	(764)	288	(476)
Total changes in ownership		-	-	-	-	(764)	(764)	288	(476)
As at 30 September 2018 (restated*)		637,333	10,501	(4,719)	28,187	137,473	808,775	(287)	808,488

* The amounts shown here do not correspond to the unaudited interim condensed consolidated financial statements for three and nine months ended 30 September 2018 (for details see Note 3).

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, except for balances as at 31 December / 1 January)

(in millions of Russian Rouble unless otherwise stated)

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 (“FAS”) 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 2019, 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

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by sanctions imposed on Russia by a number of countries. The Rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

The 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 2018 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 2018, except for those related to application of IFRS 16 “Leases” (Note 3).

PJSC “FGC UES”

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, except for balances as at 31 December / 1 January)

(in millions of Russian Rouble unless otherwise stated)

Note 2. Basis of preparation (continued)

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 12). The carrying value of trade payables and trade receivables less allowance for expected credit losses 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 7). 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 2019, 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 2018. Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual profit or loss.

IFRS 16 “Leases”. IFRS 16 was issued in January 2016 and replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single, on-balance lease sheet accounting model.

Lessor accounting under IFRS 16 is substantially unchanged comparing to IAS 17. Lessors will continue to classify leases as either operational or financial leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is a lessor.

The Group mostly leases land plots under its power transmission grids, buildings and substations. The Group also leases transmission facilities,, non-residential premises and transport.

The Group adopted IFRS 16 using modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method the standard is applied retrospectively with cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transitions practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (“short-term leases”). The Group is also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with similar characteristics;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded direct initial costs from the measurement of the right-of use-assets at the date of initial application.

Based on the foregoing, as at 1 January 2019, the Group recognized in the consolidated Statement of Financial Position:

- Right-of – use assets - presented as separate line item:
- Lease liabilities - within “Non-current debt” and “Current debt and current portion of non-current debt” line items.

The effect of adoption IFRS 16 (increase/(decrease)) on consolidated Statement of Financial Position:

	As at 1 January 2019
Assets	
Property, plant and equipment	(480)
Right-of- use assets	11,621
Total assets	11,141
Liabilities	
Non-current debt	10,582
Current and current portion of non-current debt	559
Total liabilities	11,141

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, except for balances as at 31 December / 1 January)

(in millions of Russian Rouble unless otherwise stated)

Note 3. Summary of significant accounting policies (continued)

Summary of new accounting policies:

Lease terms. The lease term comprises non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. For land lease contracts with indefinite term the Group estimates the lease term to be equal to the useful life of the Group’s property located on the land plots.

Right-of-use assets. Right-of-use assets are recognized at the commencement date of the lease (i.e. the date the underlying assets is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before commencement date less any lease incentives received. When the Group is reasonably certain to obtain ownership of the leased assets at the end of the lease term, the recognised right-of-use assets are depreciated from the commencement date to the end of useful life of the underlying assets. Otherwise, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities. Lease liabilities are recognized at the commencement date measured at the present value of lease payments to be made over the lease term. The lease payments includes fixed payments less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. Lease liabilities are subsequently measured at amortized cost with the interest expense recognized within finance income (expense) in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments disclosed in the Group’s consolidated financial statements as of 31 December 2018 as follows:

Land plots operating lease commitments as on 31 December 2018 disclosed in the Group’s consolidated financial statements	12,029
Change in estimate for land leases (revision of lease terms under open-ended and short-term lease contracts)	11,202
Other operating lease commitments	21,631
Relief option for short-term leases	(127)
Gross operating lease obligations as at 1 January 2019	44,735
Discounting	(33,594)
Operating lease liabilities as at 1 January 2019	11,141
Financial lease liabilities as at 31 December 2018	209
Total lease liabilities as at 1 January 2019	11,350

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019 was 9.91% per annum.

Restatement of comparative data and other reclassifications.

Certain comparative information were reclassified to conform with current period’s presentation, including reclassification of allowance for expected credit losses from operating expenses amounted to RR 1,364 million and RR 1,008 million for the nine and three months ended 30 September 2018 respectively.

As at 31 December 2018 the Group has retrospectively corrected an error related to certain cash flows from technological connection in the discounted cash flows model used in impairment testing.

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, except for balances as at 31 December / 1 January)

(in millions of Russian Rouble unless otherwise stated)

Note 3. Summary of significant accounting policies (continued)

Consequently, the Group has restated comparative information in Condensed Consolidated Interim Financial Statements as at and for the three and nine months ended 30 September 2018.

Changes in the Condensed Consolidated Interim Statement of Financial Position:

As at 30 September 2018	As reported	Effect of changes	As restated
Property, Plant and Equipment	967,646	(52,327)	915,319
Total non-current assets	1,099,685	(52,327)	1,047,358
Total assets	1,208,488	(52,327)	1,156,161
Retained earnings	179,392	(41,919)	137,473
Equity attributable to shareholders of FGC UES	850,694	(41,919)	808,775
Non –controlling interests	(281)	(6)	(287)
Total equity	850,413	(41,925)	808,488
Deferred tax liabilities	38,177	(10,402)	27,775
Total non-current liabilities	285,518	(10,402)	275,116
Total liabilities	358,075	(10,402)	347,673
Total equity and liabilities	1,208,488	(52,327)	1,156,161

Changes in the Condensed Consolidated Interim Statement of Profit or loss and other Comprehensive Income:

For the nine months ended 30 September 2018:	As reported	Effect of changes	As restated
Operating expenses	(113,984)	2,820	(111,164)
Accrual of allowance for expected credit losses	-	(1,364)	(1,364)
Operating profit	65,492	1,456	66,948
Profit before income tax	71,755	1,456	73,211
Income tax expense	(13,800)	(288)	(14,088)
Profit for the period	57,955	1,168	59,123
Total comprehensive income for the period	69,352	1,168	70,520
Profit attributable to:			
Shareholders of FGC UES	57,932	1,163	59,095
Non-controlling interest	23	5	28
Total comprehensive income attributable to:			
Shareholders of FGC UES	69,329	1,163	70,492
Non-controlling interest	23	5	28
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	0.046	0.001	0.047

PJSC “FGC UES”

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Note 3. Summary of significant accounting policies (continued)

For the three months ended 30 September 2018:	As reported	Effect of changes	As restated
Operating expenses	(37,834)	1,360	(36,474)
Accrual of allowance for expected credit losses	-	(1,008)	(1,008)
Operating profit	21,158	352	21,510
Profit before income tax	22,538	352	22,890
Income tax expense	(4,452)	(70)	(4,522)
Profit for the period	18,086	282	18,368
Total comprehensive income for the period	15,623	282	15,905
Profit attributable to:			
Shareholders of FGC UES	18,081	282	18,363
Non-controlling interest	5	-	5
Total comprehensive income attributable to:			
Shareholders of FGC UES	15,618	282	15,900
Non-controlling interest	5	-	5
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	0.014	0.001	0.015

Relevant notes have been corrected for data comparability in accordance with the information above.

Several other amendments and interpretations apply for the first time in 2019, 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 2019 and 2018 the Group had the following significant transactions with government-related entities:

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
Transmission revenue	43,485	42,895	131,043	126,666
Electricity sales	165	1,008	546	3,613
Construction services	59	261	134	3,595
Connection services	1,713	12	2,468	68
Dividend income	21	-	1,463	2,251
Interest income	430	803	1,698	2,496
Net reversal / (accrual) of allowance for expected credit losses	321	(615)	(131)	(1,078)
Purchased electricity for production needs	(1,622)	(1,547)	(4,885)	(4,660)
Rent	(434)	(280)	(1,309)	(700)

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

Significant balances with government-related entities are presented below:

	30 September 2019	31 December 2018
Cash and cash equivalents	33,318	33,598
Bank deposits	195	2,615
Long-term accounts receivable (net of allowance for expected credit losses of RR 43 million as at 30 September 2019 and RR 49 million as at 31 December 2018)	67,233	71,522
Other non – current assets	7	6
Other current assets	8	7
Trade receivables (net of allowance for expected credit losses of RR 5,476 million as at 30 September 2019 and RR 5,426 million as at 31 December 2018)	30,818	31,096
Other receivables (net of allowance for expected credit losses of RR 1,399 million as at 30 September 2019 and RR 1,384 million as at 31 December 2018)	15,582	20,863
Advances to suppliers (net of allowance for expected credit losses of RR 74 million as at 30 September 2019 and RR 66 million as at 31 December 2018)	301	190
Financial investments	40,754	37,956
Advances to construction companies and suppliers of property, plant and equipment (included in construction in progress)	707	433
Accounts payable to shareholders of FGC UES	(231)	(213)
Non-current debt	(6,413)	(123)
Current debt	(478)	(86)
Long – term accounts payable	(9,357)	(2,304)
Accounts payable and accrued charges	(14,233)	(13,210)

As at 30 September 2019 the Group had long-term undrawn committed financing facilities with government-related banks of RR 60,000 million (as at 31 December 2018: RR 65,000 million) with the interest rates not exceeding 8.4% and the maturity date in 2025.

Short-term undrawn committed financing facilities with government-related banks amounted to RR 15,000 million as at 30 September 2019 (31 December 2018: RR 90,050 million) with the interest rates not exceeding 14.95%.

Tax balances and charges are disclosed in Notes 11, 13 and 15. Tax transactions are disclosed in the Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income.

The assets exchange transaction with JSC “Far Eastern Energy Management Company” (government-controlled entity) is disclosed in Note 21

Parent company. During the three and nine month ended 30 September 2019 and 30 September 2018 the Group had the following significant transactions with the parent company of FGC UES - PJSC “ROSSETI”:

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
Revenues and other operating income	98	83	261	275
Operating expenses	-	(56)	(1)	(413)

Significant balances with the parent company are presented below:

	30 September 2019	31 December 2018
Trade receivables	226	173
Financial investments	481	426

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(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 2019 and 2018 was as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
Short-term compensation, including salary and bonuses	59	56	177	259
Termination benefits	-	-	9	
Post-employment benefits and other long-term benefits	26	2	(29)	9
Total	85	58	157	268

Remuneration provided to the members of the Board of Directors for the nine months ended 30 September 2019 amounted to RR 9 million (30 September 2018: RR 7 million).

Note 5. Property, plant and equipment

	Land and buildings	Power trans- mission grids	Substations	Construction in progress	Other	Total
Cost						
Balance as at 31 December 2018	31,809	604,748	725,527	248,566	82,787	1,693,437
Reclassification to right-of-use assets	-	-	-	-	(914)	(914)
Balance as at 1 January 2019	31,809	604,748	725,527	248,566	81,873	1,692,523
Additions	6	27,313	7,236	55,143	1,431	91,129
Transfers	1,220	8,399	2,000	(15,048)	3,429	-
Disposals	(31)	(438)	(686)	(270)	(807)	(2,232)
Balance as at 30 September 2019	33,004	640,022	734,077	288,391	85,926	1,781,420
Accumulated depreciation and impairment						
Balance as at 31 December 2018	(7,617)	(285,998)	(355,758)	(56,434)	(50,353)	(756,160)
Reclassification to right-of-use assets	-	-	-	-	435	435
Balance as at 1 January 2019	(7,617)	(285,998)	(355,758)	(56,434)	(49,918)	(755,725)
Depreciation charge	(334)	(7,750)	(14,694)	-	(3,087)	(25,865)
Reversal of impairment	-	-	-	2,148	-	2,148
Transfers	(1)	(315)	(448)	793	(29)	-
Disposals	6	357	665	53	781	1,862
Balance as at 30 September 2019	(7,946)	(293,706)	(370,235)	(53,440)	(52,253)	(777,580)
Net book value as at 1 January 2019	24,192	318,750	369,769	192,132	32,434	937,277
Net book value as at 30 September 2019	25,058	346,316	363,842	234,951	33,673	1,003,840

During nine months ended 30 September 2019 the Group had recognized reversal of impairment amounted to RR 2,148 million comprised of reversal of previously accrued impairment related to advances to construction companies and suppliers of property, plant and equipment.

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, except for balances as at 31 December / 1 January)

(in millions of Russian Rouble unless otherwise stated)

Note 5. Property, plant and equipment (continued)

	Land and buildings	Power trans- mission grids	Substations	Construction in progress	Other	Total
Cost						
Balance as at 1 January 2018	30,887	565,705	663,753	283,267	78,345	1,621,957
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	30,952	567,395	685,074	316,181	80,402	1,680,004
Accumulated depreciation and impairment						
Balance as at 1 January 2018 (restated)	(7,150)	(280,150)	(339,214)	(67,957)	(48,194)	(742,665)
Depreciation charge (restated)	(321)	(6,875)	(13,425)	-	(2,827)	(23,448)
Reversal of impairment	-	-	-	719	-	719
Transfers (restated)	(48)	(94)	(1,441)	1,651	(68)	-
Disposals (restated)	18	22	452	-	217	709
Balance as at 30 September 2018 (restated)	(7,501)	(287,097)	(353,628)	(65,587)	(50,872)	(764,685)
Net book value as at 1 January 2018 (restated)	23,737	285,555	324,539	215,310	30,151	879,292
Net book value as at 30 September 2018 (restated)	23,451	280,298	331,446	250,594	29,530	915,319

Note 6. Right-of-use assets

	Land and buildings	Power trans- mission grids	Substations	Other	Total	Lease liabilities
Balance as at 1 January 2019	8,347	783	1,428	1,063	11,621	11,350
Additions	1,176	-	19	109	1,304	1,304
Depreciation charge	(635)	(12)	(164)	(37)	(848)	-
Interest expense	-	-	-	-	-	902
Payments	-	-	-	-	-	(1,430)
Balance as at 30 September 2019	8,888	771	1,283	1,135	12,077	12,126

Note 7. Financial investments

	1 January 2019	Change in fair value	Disposals	30 September 2019
PJSC “INTER RAO UES”	37,419	4,909	(2,166)	40,162
PJSC “ROSSETI”	426	55	-	481
Other	111	-	-	111
Total	37,956	4,964	(2,166)	40,754
	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

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Note 7. Financial investments (continued)

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. 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.

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 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.

As at 30 September 2019 699,357 thousand shares of PJSC “INTER RAO UES” were transferred to “Praktika” LLC.

During the nine months ended 30 September 2019 the Group has reclassified 699,357 thousand shares sold to “Praktika” LLC from Level 1 to Level 3 fair value hierarchy.

During the nine months ended 30 September 2019 the Group has recognized revaluation loss for financial investments amounted to RR 548 million relating to the part of financial investment in PJSC “INTER RAO UES” shares sold to “Praktika” LLC on 03 June 2019. Accumulated revaluation reserve, net of tax, relating to shares disposed and amounted to RR 1,669 million has been reclassified from reserves to retained earnings.

Note 8. Accounts receivable and prepayments

Long-term accounts receivable:

	30 September 2019	31 December 2018
Long-term trade receivables		
(net of allowance for expected credit losses of RR 33 million as at 30 September 2019 and RR 24 million as at 31 December 2018)	68,384	72,507
Long-term other receivables		
(net of allowance for expected credit losses of RR 59 million as at 30 September 2019 and RR 64 million as at 31 December 2018)	54	192
Total long-term accounts receivable	68,438	72,699

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 2019 long-term receivables in the amount of RR 65,631 million (as at 31 December 2018: RR 67,994 million) relating to the contracts of technological connection are being 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 was determined using present value technique based on estimated future cash flows and the discount rates of 8.2-9.63%.

As at 30 September 2019 long-term receivables in the amount of RR 2,815 million (as at 31 December 2018: RR 3,452 million) represent restructured balances for transmission services from related parties for which debt restructuring agreements were signed in 2016-2018 with a payment terms of 2020-2022 years and an interest rate varying from Central bank key interest rate to 14%.

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Note 8. Accounts receivable and prepayments (continued)

	30 September 2019	31 December 2018
Trade receivables		
(Net of allowance for expected credit losses of RR 11,072 million as at 30 September 2019 and RR 10,725 million as at 31 December 2018)	35,489	35,855
Other receivables		
(Net of allowance for expected credit losses of RR 4,387 million as at 30 September 2019 and RR 4,250 million as at 31 December 2018)	25,365	32,059
Total financial assets	60,854	67,914
VAT recoverable	565	702
Advances to suppliers		
(Net of allowance for doubtful debtors of RR 474 million as at 30 September 2019 and RR 245 million as at 31 December 2018)	2,992	2,638
Tax prepayments	107	163
Total non-financial assets	3,664	3,503
Total accounts receivable and prepayments	64,518	71,417

Trade and other receivables are not interest-bearing and are largely due in 30 to 90 days as at 30 September 2019 and 31 December 2018. Given the short period of the trade and other receivables repayment, the fair value of such receivables approximates their book value.

Note 9. Cash and cash equivalents and bank deposits

	30 September 2019	31 December 2018
Cash at bank and in hand	14,711	22,285
Cash equivalents	27,726	15,333
Total cash and cash equivalents	42,437	37,618

Cash equivalents include investments in short-term deposits with original maturities of three months or less and contractual interest rate of 4.4-7.00% as at 30 September 2019 and 0.01-7.9% as at 31 December 2018.

Bank deposits

	Interest rate	Rating	Rating agency	30 September 2019	31 December 2018
PJSC “VTB”	6.67-7.35%	Baa3	Moody’s	10,305	-
JSC “Rosselkhozbank”	6.55-8.20%	BBB-	Fitch Ratings	195	1,694
PJSC “Sberbank”	7.3%	BBB	Fitch Ratings	73	-
JSC “Alfa-Bank”	7.50-8.15%	Ba1	Moody’s	-	1,196
JSC “Gazprombank”	7.46%	BB+	Fitch Ratings	-	921
Total bank deposits				10,573	3,811

Fair value of bank deposits approximates their carrying value.

Note 10. Equity

Share capital

	Number of shares issued and fully paid		Share Capital	
	30 September 2019	31 December 2018	30 September 2019	31 December 2018
Ordinary shares	1,274,665,323,063	1,274,665,323,063	637,333	637,333

As at 30 September 2019 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 2018: 4,719 million).

Dividends. At the Annual General Meeting in June 2019 shareholders approved the decision to distribute dividends for the year 2018 in the total amount of RR 20,449 million, RR 193 million of them relate to treasury shares. Dividends per ordinary share amounted to RR 0.01604.

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 0.01482.

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Note 10. Equity (continued)

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 2019	31 December 2018
Revaluation reserve for financial investments, net of tax	29,667	27,092
Remeasurement reserve for retirement benefit obligations	(3,229)	(2,426)
Foreign currency translation reserve	271	501
Total reserves	26,709	25,167

Note 11. 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 2019 and 2018 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	
	2019	2018 (restated)	2019	2018 (restated)
Profit before income tax	24,816	22,890	88,540	73,211
Theoretical income tax charge at the statutory tax rate of 20 percent	(4,963)	(4,578)	(17,708)	(14,642)
Tax effect of items which are not deductible for taxation purposes	(112)	(48)	(414)	370
Movement in unrecognised deferred tax assets	(3)	104	(1)	184
Total income tax expense	(5,078)	(4,522)	(18,123)	(14,088)

Note 12. Non-current debt

	Effective interest rate	Due	30 September 2019	31 December 2018
Certified interest-bearing non-convertible bearer bonds:				
with fixed rates	0.1-9.35%	2019-2052	76,959	77,410
with variable rates	CPI+1-2.5%	2027-2050	151,206	151,027
Loan participation notes (LPNs)	8.45%	-	-	17,943
Non-bank loans	0.1-3%	2019-2026	208	220
Lease liabilities	7.07-10.38%	2020-2069	12,126	-
Finance lease liabilities	11%	2021	-	209
Total debt			240,499	246,809
Less: current portion of non-current bonds and LPNs			(28,796)	(22,132)
Less: current portion of non-bank loans			(6)	(5)
Less: current portion of lease liabilities			(994)	-
Less: current portion of financial lease liabilities			-	(87)
Total non-current debt			210,703	224,585

All debt instruments are denominated in Russian Rouble.

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.

	Level	30 September 2019		31 December 2018	
		Fair value	Carrying value	Fair value	Carrying value
Non-convertible bearer bonds with fixed rates and loan participation notes	1	76,610	77,236	93,601	95,353
Non-convertible bearer bonds with variable rates	1	9,549	10,281	9,650	10,200
Total debt		86,159	87,517	103,251	105,553

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Note 12. Non-current debt (continued)

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 2019 the Group had long-term and short-term undrawn committed financing facilities of RR 60,000 million and RR 16,500 million respectively (as at 31 December 2018: RR 66,500 million and 90,050 million) which could be used for the general purposes of the Group.

Note 13. Accounts payable and accrued charges

Long-term accounts payable:

	30 September 2019	31 December 2018
Long-term accounts payable to construction companies and suppliers of property, plant and equipment	15,691	12,055
Total financial liabilities	15,691	12,055
Long-term advances received	7,470	2,441
Long term VAT payable	1,494	505
Total long-term accounts payable	24,655	15,001

As at 30 September 2019 long-term accounts payable to construction companies and suppliers of property, plant and equipment includes RR 2,594 million (as at 31 December 2018: RR 1,821 million) of guarantee deposits made by suppliers of property, plant and equipment refundable in 2020-2037. Fair value of consideration payable for these deposits has been determined using present value technique based on estimated future cash flows and the discount rates of 5.38-5.68%.

As at 30 September 2019 long-term accounts payable to construction companies and suppliers of property, plant and equipment includes RR 10,204 million (as at 31 December 2018: RR 10,234 million) related to contracts of purchase of property, plant and equipment. Amounts are payable in instalments in 2020-2025. Fair value of consideration payable for these accounts payable has been determined using present value technique based on estimated future cash flows and the discount rate of 8.75%.

Short-term accounts payable:

	30 September 2019	31 December 2018
Accounts payable to construction companies and suppliers of property, plant and equipment	20,682	29,967
Trade payables	9,168	12,920
Accrued liabilities	688	60
Other creditors	2,005	1,207
Total financial liabilities	32,543	44,154
Advances received	13,851	13,227
Accounts payable to employees	2,577	2,681
Taxes other than on income payable	8,337	6,863
Other provisions for liabilities and charges	651	683
Total non-financial liabilities	25,416	23,454
Total accounts payable and accrued charges	57,959	67,608

Note 14. Revenue

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
Transmission fee	55,579	53,868	166,892	158,786
Connection services	1,732	19	2,504	86
Electricity sales	388	2,179	1,226	8,187
Construction services	123	307	258	4,579
Other revenues	651	566	2,589	2,757
Total revenues	58,473	56,939	173,469	174,395

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, except for balances as at 31 December / 1 January)

(in millions of Russian Rouble unless otherwise stated)

Note 15. Operating expenses

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018 (restated)	2019	2018 (restated)
Purchased electricity	8,606	9,317	27,583	27,612
Depreciation of property, plant and equipment	8,956	7,918	25,865	23,448
Employee benefit expenses and payroll taxes	7,637	7,641	22,233	21,596
Property tax	3,236	3,657	9,927	11,053
Repairs and maintenance of equipment	1,379	1,384	2,803	2,510
Materials for repair	1,053	1,008	1,987	1,890
Rent	551	471	1,814	1,325
Business trips and transportation expenses	662	660	1,685	1,719
Electricity transit	402	245	1,220	531
Amortisation of intangible assets	386	300	1,202	878
Depreciation of right-of-use assets	220	-	657	-
Subcontract works for construction contracts	82	389	269	2,854
Fuel for mobile gas-turbine electricity plants	11	1,542	61	5,983
Materials for construction contracts	33	323	33	1,756
Other expenses	3,142	1,619	9,642	8,009
Total operating expenses	36,356	36,474	106,981	111,164

Note 16. Finance income

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
Interest income	861	781	2,417	2,838
Unwinding of discount of accounts receivable	2,147	1,387	6,538	4,300
Foreign currency exchange differences	1	4	20	9
Dividend income	21	-	1,463	2,251
Other finance income	63	81	164	212
Total finance income	3,093	2,253	10,602	9,610

Note 17. Finance costs

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
Interest expense (excluding lease contracts)	4,070	3,314	11,993	10,630
Interest expense on lease contracts	303	5	902	18
Net interest on the defined benefit obligations	151	136	369	418
Foreign currency exchange differences	28	10	83	31
Other finance costs	87	2	283	143
Total finance costs	4,639	3,467	13,630	11,240
Less: capitalised interest expenses on borrowings related to qualifying assets	(3,068)	(2,500)	(8,390)	(7,778)
Total finance costs recognised in profit or loss	1,571	967	5,240	3,462

PJSC “FGC UES”

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, except for balances as at 31 December / 1 January)

(in millions of Russian Rouble unless otherwise stated)

Note 18. Earnings per ordinary share for profit attributable to shareholders of FGC UES

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018 (restated)	2019	2018 (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)	19,737	18,363	70,386	59,095
Weighted average earning per share – basic and diluted (in RR)	0.016	0.015	0.056	0.047

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

Note 19. 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 2019 in comparison with those described in the Group’s consolidated financial statements for the year ended 31 December 2018 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 2019 claims made by suppliers of property, plant and equipment and other counterparties to the Group amounted to RR 3,724 million. Management believes the likelihood of negative outcome for the Group and the respective 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 (Note 13). 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.

Depending on the further practice of applying the property tax rules by the tax authorities and courts the classification of moveable and immoveable property set by the Group could be argued. The management of the Group is unable to assess the ultimate outcome and the outflow of financial resources to settle potential tax claims.

As at 30 September 2019 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 152,202 million as at 30 September 2019 (as at 31 December 2018: RR 180,617 million) including VAT. These amounts include accounts payable to construction companies and suppliers of property, plant and equipment in the amount of RR 36,373 million as at 30 September 2019 (as at 31 December 2018: RR 42,257 million).

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, except for balances as at 31 December / 1 January)

(in millions of Russian Rouble unless otherwise stated)

Note 20. 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	
	2019	2018	2019	2018
Revenue from external customers	57,737	54,886	171,295	160,910
Intercompany revenue	92	89	272	242
Total revenue	57,829	54,975	171,567	161,152
Segment profit for the period	9,197	4,730	38,020	33,264
			30 September 2019	31 December 2018
Total reportable segment assets (RAR)			1,508,373	1,498,267
Total reportable segment liabilities (RAR)			426,289	424,550

Statements for the three and nine months ended 30 September 2019 and 2018 is presented below:

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
Total revenue from segment (RAR)	57,829	54,975	171,567	161,152
Reclassification between revenue and other income	(302)	(463)	(727)	(359)
Non-segmental revenue	1,105	2,589	3,167	14,147
Elimination of intercompany revenue	(92)	(89)	(272)	(242)
Non-recognised revenue	(67)	(69)	(266)	(289)
Other adjustments	-	(4)	-	(14)
Total revenue (IFRS)	58,473	56,939	173,469	174,395

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, except for balances as at 31 December / 1 January)

(in millions of Russian Rouble unless otherwise stated)

Note 20. 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 2019 and 2018 is presented below:

	Three months ended 30 September		Nine months ended 30 September	
	2019	2018 (restated)	2019	2018 (restated)
Profit for the period (RAR)	9,197	4,730	38,020	33,264
Property, plant and equipment				
Adjustment to the carrying value of property, plant and equipment	10,828	11,541	33,060	35,866
Gain on disposal of assets	-	-	10,444	-
Reversal of impairment of property, plant and equipment	31	25	2,148	58
Financial instruments				
Re-measurement of financial investments	741	2,111	(5,282)	(6,852)
Discounting of long-term accounts receivable	842	1,312	2,547	3,990
Discounting of long-term accounts payable	(37)	88	(164)	32
Discounting of promissory notes	9	8	24	22
Consolidation				
Reversal of impairment of investments in subsidiaries	-	1,347	(11)	384
Other				
Adjustment to allowance for expected credit losses	452	(534)	(92)	1,014
Right-of-use assets	(359)	-	(603)	-
Accrual of retirement benefit obligations	(199)	(48)	(168)	(361)
Non-recognised revenue and other income	(512)	217	(2,073)	(1,418)
Write-off of research and development to expenses	(24)	28	7	93
Share of result of associates	44	94	104	115
Disposal of associate	-	-	(62)	-
Adjustment to provision for legal claims	362	1,334	63	990
Deferred tax adjustment	(1,590)	(1,936)	(6,749)	(4,733)
Other adjustments	202	(964)	83	(2,796)
Non-segmental other operating loss	(249)	(985)	(879)	(545)
Profit for the period (IFRS)	19,738	18,368	70,417	59,123

Information on revenue for separate services and products of the Group is presented in Note 4. The Group performs most of its activities in the Russian Federation and does not have any significant revenue from foreign customers or any non-current assets located in foreign countries. The major customers of the Group are government-related entities. The amounts of revenue from such entities are disclosed in Note 4. The Group has no other major customers with turnover over 10 percent of the Group revenue.

Note 21. Gain on disposal of assets

On 26 December 2018, as a part of UNEG asset consolidation process the Group has concluded the exchange contract with JSC “Far Eastern Energy Management Company” (government-controlled entity). The Group exchanges property, plant and equipment, accounts receivable, and cash to be paid by instalments up to 2024 for UNEG property plant and equipment. The exchange has been completed on 1 January 2019.

As at 1 January 2019 the Group has recognized disposal of property, plant and equipment with the carrying value of RR 16,045 million and accounts receivable with the carrying value of RR 5,372 million, and at the same time recognised additions to property, plant and equipment at fair value of RR 34,564 million, long-term accounts payable at fair value of RR 2,713 million and short-term accounts payable at fair value of RR 2,384 million at initial recognition. The Group also recognised VAT recoverable amounted to RR 2,394 million.

Fair value of long-term accounts payable has been determined using present value technique based on estimated future cashflows at the discount rate of 9%. Gain on assets disposal amounted to RR 10,444 million have been recognised in profit and loss.