

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 2017

(UNAUDITED)

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PJSC “FGC UES”

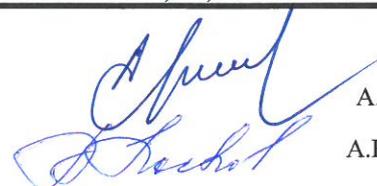
Condensed Consolidated Interim Statement of Financial Position (Unaudited, except for balances as at 31 December 2016)
(in millions of Russian Rouble unless otherwise stated)

	Notes	30 September 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	5	870,971	846,695
Intangible assets		6,740	7,320
Investments in associates and joint ventures		1,175	1,160
Available-for-sale investments	6	73,721	76,537
Deferred income tax assets		18	14
Long-term accounts receivable	8	49,630	45,145
Other non-current assets		896	1,853
Total non-current assets		1,003,151	978,724
Current assets			
Cash and cash equivalents	7	29,338	44,404
Bank deposits	7	4,244	450
Accounts receivable and prepayments	8	58,310	58,187
Income tax prepayments		460	305
Inventories		21,127	14,900
Other current assets		113	140
Total current assets		113,592	118,386
TOTAL ASSETS		1,116,743	1,097,110
EQUITY AND LIABILITIES			
Equity			
Share capital: Ordinary shares	9	637,333	637,333
Treasury shares	9	(4,719)	(4,719)
Share premium		10,501	10,501
Reserves		279,114	281,759
Accumulated deficit		(174,023)	(198,273)
Equity attributable to shareholders of FGC UES		748,206	726,601
Non-controlling interest		344	1,816
Total equity		748,550	728,417
Non-current liabilities			
Deferred income tax liabilities		33,230	25,433
Non-current debt	11	216,988	236,954
Deferred income		997	919
Retirement benefit obligations		6,638	5,959
Total non-current liabilities		257,853	269,265
Current liabilities			
Accounts payable to shareholders of FGC UES		141	73
Current debt and current portion of non-current debt	11	38,027	29,660
Accounts payable and accrued charges	12	71,535	62,059
Income tax payable		637	7,636
Total current liabilities		110,340	99,428
Total liabilities		368,193	368,693
TOTAL EQUITY AND LIABILITIES		1,116,743	1,097,110

17 November 2017

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

	Notes	Three months ended		Nine months ended	
		30 September	2016	2017	2016
Revenues	13	58,461	54,867	160,080	165,453
Other operating income		840	1,315	4,340	4,050
Operating expenses	14	(37,758)	(37,756)	(101,533)	(108,173)
(Loss on regain of control)/gain on derecognition of subsidiary	20	-	-	(12,327)	11,812
Reversal of impairment/(impairment) of property, plant and equipment, net	5	293	(2,219)	299	(4,184)
Operating profit		21,836	16,207	50,859	68,958
Finance income	15	3,049	2,161	11,039	5,886
Finance costs	16	(1,116)	(2,485)	(3,584)	(7,382)
Share of result of associates		8	7	14	(275)
Profit before income tax		23,777	15,890	58,328	67,187
Income tax expense	10	(5,147)	(1,560)	(14,811)	(7,994)
Profit for the period		18,630	14,330	43,517	59,193
Other comprehensive (loss)/income					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Remeasurements of retirement benefit obligations		(121)	(108)	(408)	(722)
Income tax relating to items that will not be reclassified		6	4	13	34
Total items that will not be reclassified to profit or loss		(115)	(104)	(395)	(688)
<i>Items that may be reclassified subsequently to profit or loss</i>					
Change in fair value of available-for-sale investments	6	(2,225)	13,477	(2,816)	41,297
Foreign currency translation difference		(83)	(26)	4	(28)
Income tax relating to items that may be reclassified		444	(2,696)	562	(8,260)
Total items that may be reclassified to profit or loss		(1,864)	10,755	(2,250)	33,009
Other comprehensive (loss)/income for the period, net of income tax		(1,979)	10,651	(2,645)	32,321
Total comprehensive income for the period		16,651	24,981	40,872	91,514
Profit / (loss) attributable to:					
Shareholders of FGC UES	17	18,746	14,351	43,674	59,408
Non-controlling interest		(116)	(21)	(157)	(215)
Total comprehensive income / (loss) attributable to:					
Shareholders of FGC UES		16,767	25,002	41,029	91,729
Non-controlling interest		(116)	(21)	(157)	(215)
Earnings per ordinary share for profit attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	17	0.015	0.011	0.035	0.047

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 2017	Nine months ended 30 September 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		58,328	67,187
<i>Adjustments to reconcile profit before income tax to net cash provided by operations</i>			
Depreciation of property, plant and equipment	5,14	33,489	29,443
Loss/(gain) on disposal of property, plant and equipment		409	(1,222)
Amortisation of intangible assets		997	1,026
(Reversal of impairment)/impairment of property, plant and equipment, net	5	(299)	4,184
Loss on regain of control/(gain on derecognition) of subsidiary	20	12,327	(11,812)
Share of result of associates		(14)	275
Reversal of allowance for doubtful debtors	14	(2,661)	(2,356)
(Reversal)/accrual of other provision for liabilities and charges		(1,747)	1,459
Finance income	15	(11,039)	(5,886)
Finance costs	16	3,584	7,382
Other non-cash operating expense/(income)		90	(25)
Operating cash flows before working capital changes and income tax paid		93,464	89,655
<i>Working capital changes:</i>			
Decrease/(increase) in accounts receivable and prepayments		602	(14,524)
(Increase)/decrease in inventories		(6,227)	2,723
Decrease/(increase) in other non-current assets		61	(55)
(Decrease)/increase in accounts payable and accrued charges		(1,708)	6,790
Decrease in retirement benefit obligations		(72)	(304)
Income tax paid		(13,705)	(4,680)
Net cash generated by operating activities		72,415	79,605
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(48,988)	(43,984)
Proceeds from disposal of property, plant and equipment		544	3,052
Purchase of intangible assets		(501)	(519)
Redemption of promissory notes		2	156
Investment in bank deposits		(9,372)	(4,804)
Redemption of bank deposits		5,578	25,899
Dividends received		2,579	353
Loans given		(2)	(50)
Repayment of loans given		1,000	-
Sale of subsidiary		-	9
Interest received		5,984	4,511
Net cash used in investing activities		(43,176)	(15,377)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from current and non-current borrowings		75	109
Repayment of non-current borrowings		(9,983)	(9,954)
Repayment of lease		(112)	(112)
Dividends paid		(19,427)	(16,754)
Interest paid		(14,982)	(23,238)
Government grants		124	-
Net cash used in financing activities		(44,305)	(49,949)
Net (decrease)/increase in cash and cash equivalents		(15,066)	14,279
Cash and cash equivalents at the beginning of the period	7	44,404	28,176
Cash and cash equivalents at the end of the period	7	29,338	42,455

The accompanying notes on 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 interest	Total equity
		Share capital	Share premium	Treasury shares	Reserves	Accumulated deficit			
As at 1 January 2017		637,333	10,501	(4,719)	281,759	(198,273)	726,601	1,816	728,417
Comprehensive income for the period									
Profit for the period		-	-	-	-	43,674	43,674	(157)	43,517
<i>Other comprehensive income / (loss), net of related income tax</i>									
Change in fair value of available-for-sale investments	6	-	-	-	(2,254)	-	(2,254)	-	(2,254)
Remeasurements of retirement benefit obligations		-	-	-	(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)	43,674	41,029	(157)	40,872
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	20	-	-	-	-	-	-	(1,312)	(1,312)
Total changes in ownership		-	-	-	-	-	-	(1,312)	(1,312)
As at 30 September 2017		637,333	10,501	(4,719)	279,114	(174,023)	748,206	344	748,550

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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 interest	Total equity
		Share capital	Share premium	Treasury shares	Reserves	Accumulated deficit			
As at 1 January 2016		637,333	10,501	(4,719)	229,578	(252,980)	619,713	(75)	619,638
Comprehensive income for the period									
Profit for the period		-	-	-	-	59,408	59,408	(215)	59,193
<i>Other comprehensive income / (loss), net of related income tax</i>									
Change in fair value of available-for-sale investments	6	-	-	-	33,037	-	33,037	-	33,037
Remeasurements of retirement benefit obligations		-	-	-	(688)	-	(688)	-	(688)
Foreign currency translation difference		-	-	-	(28)	-	(28)	-	(28)
Total other comprehensive income		-	-	-	32,321	-	32,321	-	32,321
Total comprehensive income for the period		-	-	-	32,321	59,408	91,729	(215)	91,514
Transactions with shareholders of FGC UES recorded directly in equity									
Dividends declared	9	-	-	-	-	(16,976)	(16,976)	(1)	(16,977)
Total transactions with shareholders of FGC UES		-	-	-	-	(16,976)	(16,976)	(1)	(16,977)
Changes in ownership									
Derecognition of subsidiary	20	-	-	-	-	-	-	1,174	1,174
Total changes in ownership		-	-	-	-	-	-	1,174	1,174
As at 30 September 2016		637,333	10,501	(4,719)	261,899	(210,548)	694,466	883	695,349

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

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 1. PJSC “FGC UES” and its operations

Public Joint-Stock Company “Federal Grid Company of Unified Energy System” (“FGC UES” or the “Company”) was established in June 2002 for the purpose of operating and managing the electricity transmission grid infrastructure of the Russian Unified National Electric Grid (the “UNEG”).

FGC UES and its subsidiaries (the “Group”) act as the natural monopoly operator for the UNEG. The Group’s principal operating activities consist of providing electricity transmission services, providing connection to the electricity grid, maintaining the electricity grid system, technical supervision of grid facilities and investment activities in the development of the UNEG. The majority of the Group’s revenues are generated via tariffs for electricity transmission, which are approved by the Russian Federal Antimonopoly Service (the “FAS” – legal successor of the Federal Tariff Service, abolished on 21 July 2015) based on the Regulatory Asset Base (“RAB”) regulation. FGC UES’s main customers are distribution grid companies (“IDGCs”), certain large commercial end customers and retail electricity supply companies.

On 14 June 2013 the Government of the Russian Federation (the “RF”) transferred its stake in FGC UES to PJSC “Russian Grids” (former OJSC “IDGC Holding”), the holding company of an electricity distribution group, controlled by the Government of the RF. As at 30 September 2017, FGC UES was 80.13% owned and controlled by PJSC “Russian Grids”. 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 consolidated financial statements (“Consolidated 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.

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

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 2016 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 2016, except the following.

Regain of control over OJSC “Nurenergo”(Note 20). On 29 June 2016 the Commercial Court of the Republic of Chechnya declared OJSC “Nurenergo”, the subsidiary of FGC UES, bankrupt and appointed an external bankruptcy manager. In accordance with Russian legislation on insolvency (bankruptcy), since the date a debtor is declared bankrupt, the power of all executive bodies of a debtor is terminated and transferred to a bankruptcy manager. Due to this fact FGC UES lost the right to direct relevant activities of the subsidiary and, therefore, lost control over the entity. As a result the Group derecognized the assets and liabilities of the OJSC “Nurenergo” as at 30 June 2016 and recognised gain amounted to RR 11,812 million in condensed consolidated interim statement of profit or loss and other comprehensive income.

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

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

Fair value. Management believes that the fair value of financial assets and liabilities carried at amortised cost is not significantly different from their carrying amounts, except for non-current and current debt (Note 11). The carrying value of trade payables and trade receivables less provision for doubtful debtors is assumed to approximate their fair value due to their short-term nature. The financial instruments of the Group carried at fair value represent available-for-sale investments (Note 6). The fair value of the available-for-sale investments is determined by the quoted prices (Level 1 inputs) in active markets for identical financial assets. There are no significant unobservable inputs used in measuring fair values of financial assets and liabilities.

Note 3. Summary of significant accounting policies

Except for the adoption of the new standards and interpretations effective for the annual periods beginning on 1 January 2017, the accounting policies followed in the preparation of these Condensed Consolidated Interim Financial Statements were consistent with those applied in the consolidated financial statements as at and for the year ended 31 December 2016. Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual profit or loss.

Changes in accounting policies. Several new amendments to standards apply for the first time in 2017. However, they do not impact the Group’s annual consolidated financial statements or the condensed consolidated interim financial statements.

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

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 4. Balances and transactions with related parties

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

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Transmission revenue	39,963	38,611	116,699	109,496
Electricity sales	566	4,243	2,463	13,081
Construction services	2,151	4,027	3,715	14,777
Connection services	13	874	390	947
Dividend income	103	-	2,579	-
Purchased electricity for production needs	(1,698)	(1,738)	(4,499)	(4,801)

Significant balances with government-related entities are presented below:

	30 September 2017	31 December 2016
Cash and cash equivalents	24,187	32,794
Bank deposits	4,244	450
Long-term accounts receivable	48,341	44,512
Other non –current assets	18	16
Other current assets	8	7
Trade receivables (net of allowance for doubtful debtors of RR 3,559 million as at 30 September 2017 and RR 7,555 million as at 31 December 2016)	36,420	40,831
Other receivables (net of allowance for doubtful debtors of RR 355 million as at 30 September 2017 and RR 1,161 million as at 31 December 2016)	2,004	2,221
Available-for-sale investments	73,721	76,537
Advances to construction companies and suppliers of property, plant and equipment (included in CIP)	358	604
Accounts payable to shareholders of FGC UES	(141)	(73)
Non-current debt	-	(300)
Current debt	(330)	(465)
Accounts payable and accrued charges	(22,796)	(13,214)

As at 30 September 2017 the Group had long-term and short term undrawn committed financing facilities with government-related banks of RR 80,350 and RR 25,000 million respectively (as at 31 December 2016: RR 105,000 million and nil) (Note 11). Tax balances and charges are disclosed in Notes 12 and 14. Tax transactions are disclosed in the Condensed Consolidated Interim Statement of Profit and Loss and Other comprehensive Income.

Directors’ compensation. Total remuneration in the form of salary, bonuses and non-cash benefits (social security contributions are not included) provided to the members of the Management Board for the three and nine months ended 30 September 2017 and 2016 was as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Short-term compensation, including salary and bonuses	20	34	249	254
Termination benefits	-	17	-	17
Post-employment benefits and other long-term benefits	4	4	10	13
Total	24	55	259	284

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

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 5. Property, plant and equipment

	Buildings	Power trans- mission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Balance as at 1 January 2017	23,867	371,201	289,526	124,897	37,204	846,695
Additions	193	71	30	56,632	1,493	58,419
Transfers	(92)	1,219	4,980	(6,605)	498	-
Disposals	(20)	(215)	(254)	(398)	(154)	(1,041)
Balance as at 30 September 2017	23,948	372,276	294,282	174,526	39,041	904,073
Accumulated depreciation and impairment						
Balance as at 1 January 2017	-	-	-	-	-	-
Depreciation charge	(319)	(11,631)	(16,174)	-	(5,365)	(33,489)
Reversal of impairment loss	-	-	-	299	-	299
Disposals	-	47	17	-	24	88
Balance as at 30 September 2017	(319)	(11,584)	(16,157)	299	(5,341)	(33,102)
Net book value as at 1 January 2017	23,867	371,201	289,526	124,897	37,204	846,695
Net book value as at 30 September 2017	23,629	360,692	278,125	174,825	33,700	870,971
Appraisal value or cost						
Balance as at 1 January 2016	20,820	392,762	256,529	155,704	37,177	862,992
Additions	1	298	445	47,525	602	48,871
Transfers	27	5,322	5,850	(12,029)	830	-
Disposals	(273)	(98)	(1,434)	(1,353)	(130)	(3,288)
Balance as at 30 September 2016	20,575	398,284	261,390	189,847	38,479	908,575
Accumulated depreciation and impairment						
Balance as at 1 January 2016	(356)	(15,350)	(17,335)	(2,850)	(5,987)	(41,878)
Depreciation charge	(306)	(12,428)	(12,599)	-	(4,110)	(29,443)
Impairment loss	-	-	-	(4,184)	-	(4,184)
Disposals	5	9	52	-	60	126
Balance as at 30 September 2016	(657)	(27,769)	(29,882)	(7,034)	(10,037)	(75,379)
Net book value as at 1 January 2016	20,464	377,412	239,194	152,854	31,190	821,114
Net book value as at 30 September 2016	19,918	370,515	231,508	182,813	28,442	833,196

Note 6. Available-for-sale investments

	1 January 2017	Change in fair value	30 September 2017
PJSC “INTER RAO UES”	74,520	(2,558)	71,962
PJSC “Russian Grids”	1,906	(258)	1,648
Other	111	-	111
Total	76,537	(2,816)	73,721
	1 January 2016	Change in fair value	30 September 2016
PJSC “INTER RAO UES”	21,480	-	61,851
PJSC “Russian Grids”	680	-	1,606
Other	111	2	113
Total	22,271	2	63,570

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 7. Cash and cash equivalents and bank deposits

	30 September 2017	31 December 2016
Cash at bank and in hand	11,174	20,223
Cash equivalents	18,164	24,181
Total cash and cash equivalents	29,338	44,404

Cash equivalents include investments in short-term deposits with original maturities of three months or less and contractual interest rate of 6.30-8.30% as at 30 September 2017 and 7.23-10.35% as at 31 December 2016.

Bank deposits

	Interest rate	30 September 2017	31 December 2016
JSC “Rosselkhozbank”	9.29%	4,184	-
JSC “Gazprombank”	7.80%-9.55%	60	295
PJSC “VTB”	9.70%	-	155
Total bank deposits		4,244	450

Fair value of bank deposits approximates their carrying value.

Note 8. Accounts receivable and prepayments

Long-term trade receivables mainly relate to the contracts of technological connection services provided that imply deferred inflow of cash and to restructured receivable balances for transmission services that are expected to be settled within the period exceeding 12 months from the period end.

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

Long-term trade receivables are stated net of allowance for the doubtful debtors of RR 135 million as at 30 September 2017 and RR 524 million as at 31 December 2016).

	30 September 2017	31 December 2016
Trade receivables		
(Net of allowance for doubtful debtors of RR 8,377 million as at 30 September 2017 and RR 12,117 million as at 31 December 2016)	46,119	47,824
Other receivables		
(Net of allowance for doubtful debtors of RR 2,258 million as at 30 September 2017 and RR 3,513 million as at 31 December 2016)	6,779	6,410
VAT recoverable	2,433	580
Advances to suppliers		
(Net of allowance for doubtful debtors of RR 949 million as at 30 September 2017 and RR 2,054 million as at 31 December 2016)	2,847	3,127
Tax prepayments	132	246
Total accounts receivable and prepayments	58,310	58,187

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

Note 9. Equity

Share capital

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

Treasury shares. The Group through a subsidiary holds 13,727,165 thousand ordinary shares in treasury at a total cost of RR 4,719 million as at 30 September 2017 (as at 31 December 2016: 4,719 million).

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

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

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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 2017 and 2016 most entities of the Group were subject to tax rates of 20 percent on taxable profit.

Profit before income tax for financial reporting purposes is reconciled to income tax expenses as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Profit before income tax	23,777	15,890	58,328	67,187
Theoretical income tax charge at the statutory tax rate of 20 percent	(4,756)	(3,178)	(11,666)	(13,437)
Tax effect of (regain of control) / derecognition of subsidiary	-	-	(2,871)	2,767
Tax effect of items which are not deductible for taxation purposes	(251)	968	(57)	452
Movement in unrecognised deferred tax assets	(140)	650	(217)	2,224
Total income tax expense	(5,147)	(1,560)	(14,811)	(7,994)

Note 11. Non-current debt

	Effective interest rate	Due	30 September 2017	31 December 2016
Certified interest-bearing non-convertible bearer bonds:				
with fixed rates	7.5-9.35%	2019-2051	85,951	96,179
with variable rates	CPI+1-2.5%	2022-2050	151,050	151,727
Loan participation notes (LPNs)	8.45%	2019	17,574	17,943
Finance lease liabilities	9.50%	2018	330	415
Total debt			254,905	266,264
Less: current portion of non-current bonds and LPNs			(37,587)	(29,195)
Less: current portion of finance lease liabilities			(330)	(115)
Total non-current debt			216,988	236,954

All debt instruments are denominated in Russian Rouble.

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

	Level	30 September 2017		31 December 2016	
		Fair value	Carrying value	Fair value	Carrying value
Non-convertible bearer bonds with fixed rates and loan participation notes	1	102,255	103,348	109,355	113,856
Non-convertible bearer bonds with variable rates	1	9,296	10,112	9,761	10,411
Total debt		111,551	113,460	119,116	124,267

Other non-current debt with floating rates classified into fair value hierarchy level 3 represent non-quoted non-convertible bearer bonds with floating 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 2017 the Group had long-term and short-term undrawn committed financing facilities of RR 129,350 million and RR 25,023 million respectively (as at 31 December 2016: RR 152,500 million and nil) which could be used for the general purposes of the Group.

Note 12. Accounts payable and accrued charges

	30 September 2017	31 December 2016
Trade payables	24,390	8,670
Accounts payable to construction companies and suppliers of property, plant and equipment	22,138	23,759
Advances received	13,342	15,091
Provision for legal claims	2,202	4,027
Accounts payable to employees	2,155	2,313
Taxes other than on income payable	4,551	7,221
Other creditors and accrued liabilities	2,757	978
Total accounts payable and accrued charges	71,535	62,059

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Note 13. Revenue

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Transmission fee	50,283	44,199	141,031	126,766
Construction services	5,664	5,464	9,486	17,942
Electricity sales	1,239	4,553	5,271	16,335
Connection services	103	64	1,818	2,622
Other revenues	1,172	587	2,474	1,788
Total revenues	58,461	54,867	160,080	165,453

Note 14. Operating expenses

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Depreciation of property, plant and equipment	11,249	9,731	33,489	29,443
Employee benefit expenses and payroll taxes	6,712	6,012	19,620	18,748
Purchased electricity	7,083	6,286	14,330	18,114
Property tax	2,716	2,266	8,234	6,943
Subcontract works for construction contracts	3,498	2,263	5,422	10,352
Fuel for mobile gas-turbine electricity plants	1,012	679	4,213	5,206
Materials for construction contracts	2,262	3,127	3,817	6,734
Business trips and transportation expenses	577	572	1,496	1,431
Rent	449	420	1,257	1,087
Security services	380	375	1,120	1,096
Amortisation of intangible assets	335	339	997	1,026
Electricity transit	176	494	700	1,709
(Reversal)/accrual of allowance for doubtful debtors	(3,606)	270	(2,661)	(2,356)
Other expenses	4,915	4,922	9,499	8,640
Total operating expenses	37,758	37,756	101,533	108,173

Note 15. Finance income

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Interest income	1,426	2,002	3,974	5,417
Unwind of discount of accounts receivable	1,506	-	4,418	-
Foreign currency exchange differences	-	28	23	68
Dividends	103	107	2,579	353
Other finance income	14	24	45	48
Total finance income	3,049	2,161	11,039	5,886

Note 16. Finance costs

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Interest expense	4,158	5,654	13,403	20,377
Net interest on the defined benefit obligations	113	152	356	474
Foreign currency exchange differences	3	93	64	195
Total finance cost	4,274	5,899	13,823	21,046
Less: capitalised interest expenses	(3,158)	(3,414)	(10,239)	(13,664)
Total finance cost recognised in profit or loss	1,116	2,485	3,584	7,382

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

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Weighted average number of ordinary shares (millions of shares)	1,260,938	1,260,938	1,260,938	1,260,938
Profit attributable to shareholders of FGC UES (millions of RR)	18,746	14,351	43,674	59,408
Weighted average earning per share – basic and diluted (in RR)	0.015	0.011	0.035	0.047

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 changes in political environment, insurance policies and environmental matters during the nine months ended 30 September 2017 in comparison with those described in the Group’s consolidated financial statements for the year ended 31 December 2016 as well as there have been no changes in operating and financial risk management policies since year end.

Legal proceedings.

In the normal course of business the Group entities may be a party to certain legal proceedings. As at 30 September 2017 claims made by suppliers of property, plant and equipment and other counterparties to the Group amounted to RR 5,256 million (as at 31 December 2016: RR 3,859 million). Management of the Group is unable to assess the ultimate outcome of the claims and the outflow of financial resources to settle such claims, if any.

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

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

Tax contingency.

Russian tax and customs legislation is subject to varying interpretation when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by the relevant regional and federal authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of decision to perform tax review. Under certain circumstances reviews may cover longer periods.

As at 30 September 2017 management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency and customs positions will be sustained.

Capital commitments related to construction of property, plant and equipment. Future capital expenditures for which contracts have been signed amount to RR 176,610 million as at 30 September 2017 (as at 31 December 2016: RR 210,968 million) including VAT. These amounts include accounts payable to construction companies and suppliers of property, plant and equipment in the amount of RR 22,138 million as at 30 September 2017 (as at 31 December 2016: RR 23,759 million) (Note 12).

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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		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
Revenue from external customers	50,865	44,865	144,280	130,086
Intercompany revenue	77	472	225	1,162
Total revenue	50,942	45,337	144,505	131,248
Segment profit for the period	8,249	9,912	27,310	25,992

	30 September 2017	31 December 2016
Total reportable segment assets (RAR)	1,390,758	1,398,048
Total reportable segment liabilities (RAR)	413,782	428,746

Statements for the three and nine months ended 30 September 2017 and 2016 is presented below:

	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
Total revenue from segment (RAR)	50,942	45,337	144,505	131,248
Reclassification between revenue and other income	(174)	561	(460)	380
Non-segmental revenue	7,692	10,338	16,374	35,292
Elimination of intercompany revenue	(77)	(472)	(225)	(1,162)
Other adjustments	78	(897)	(114)	(305)
Total revenue (IFRS)	58,461	54,867	160,080	165,453

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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 2017 and 2016 is presented below:

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Profit for the period (RAR)	8,249	9,912	27,310	25,992
Property, plant and equipment				
Adjustment to the carrying value of property, plant and equipment	9,111	10,475	28,436	30,776
Reversal of impairment of property, plant and equipment	294	1,842	299	5,287
Financial instruments				
Discounting of promissory notes	7	9	20	30
Discounting of long-term accounts receivable	286	-	2,419	-
Consolidation				
Reversal of adjustment to the value of investment in subsidiaries	1,780	551	2,127	303
Reversal of adjustments to the carrying value of intercompany promissory notes	333	(3,803)	(110)	(9,936)
Reversal of re-measurement of treasury shares	-	-	-	4
Other				
Adjustment to provision for legal claims	833	(1,152)	2,025	(1,445)
Adjustment to allowance for doubtful debtors	(1)	(3,328)	838	(3,725)
Accrual of retirement benefit obligations	(65)	(229)	(188)	(157)
Write-off of research and development to expenses	31	(16)	82	30
Share of result of associates	8	7	14	(275)
Deferred tax adjustment	(1,150)	(261)	(4,197)	(916)
Other adjustments	(641)	(786)	(316)	(1,289)
(Loss on regain of control)/gain on derecognition of subsidiary	-	-	(12,327)	11,812
Non-segmental other operating (loss)/profit	(445)	1,109	(2,915)	2,702
Profit for the period (IFRS)	18,630	14,330	43,517	59,193

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.

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Note 20. Regain of control over subsidiary

On 30 June 2016 the Group derecognised its investment in OJSC “Nurenergo” as the Group lost control over the entity (Note 2).

The derecognition of the subsidiary had the following effect on the Group’s assets and liabilities at the date of derecognition:

	Carrying amount at date of disposal
Negative net assets and liabilities of subsidiary	15,006
Impairment of intercompany accounts receivable and loans given	(2,020)
Non-controlling interest	(1,174)
Gain on derecognition of subsidiary	11,812

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

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

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

On 27 October 2017 the Commercial Court of the Republic of Chechnya declared OJSC “Nurenergo”, bankrupt and initiated six months liquidation procedure up to 27 April 2018.

The Group will account for the loss of control over “Nurenergo” in its 2017 annual consolidated financial statements.