Consolidated interim condensed financial statements of Public Joint Stock Company ROSSETI and its subsidiaries prepared in accordance with IAS 34 “Interim financial reporting” as at and for the three and nine months ended 30 September 2018 (unaudited)

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Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income
(in millions of Russian rubles, unless otherwise stated)

	Notes	Three months ended 30 September 2018	Three months ended 30 September 2017	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Revenue	7	234,308	220,428	719,644	656,337
Operating expenses	9	(196,949)	(184,962)	(614,525)	(541,914)
Other income, net	8	6,170	6,389	19,048	4,177
Results from operating activities		**43,529**	**41,855**	**124,167**	**118,600**
Finance income	10	3,625	3,960	12,518	13,899
Finance costs	10	(6,540)	(7,190)	(20,405)	(22,759)
Net finance costs		**(2,915)**	**(3,230)**	**(7,887)**	**(8,860)**
Share of profit/(loss) of associates and joint ventures (net of income tax)		94	3	328	(13)
Profit before income tax		**40,708**	**38,628**	**116,608**	**109,727**
Income tax expense		(8,986)	(11,609)	(27,949)	(28,705)
Profit for the period		**31,722**	**27,019**	**88,659**	**81,022**
Other comprehensive income/(loss)					
Items that may be reclassified subsequently to profit or loss					
Net change in fair value of available-for-sale financial assets		–	(2,347)	–	(2,601)
Foreign currency translation difference		(21)	(84)	139	2
Income tax		–	470	–	518
Total items that may be reclassified subsequently to profit or loss		**(21)**	**(1,961)**	**139**	**(2,081)**
Items that will not be reclassified subsequently to profit or loss					
Changes in fair value of financial assets at fair value through other comprehensive income		(3,102)	–	3,880	–
Remeasurements of the defined benefit liability		2,696	(406)	3,501	(1,307)
Income tax		(473)	50	6,007	156
Total items that will not be reclassified subsequently to profit or loss		**(879)**	**(356)**	**13,388**	**(1,151)**
Other comprehensive income/(loss) for the period, net of income tax		**(900)**	**(2,317)**	**13,527**	**(3,232)**
Total comprehensive income for the period		**30,822**	**24,702**	**102,186**	**77,790**
Profit attributable to:					
Owners of the Company		23,118	20,742	63,722	57,958
Non-controlling interest		8,604	6,277	24,937	23,064
Total comprehensive income attributable to:					
Owners of the Company		22,182	18,932	74,279	55,510
Non-controlling interest		8,640	5,770	27,907	22,280
Earnings per share					
Basic and diluted earnings per ordinary share (in RUB)	17	0.11	0.10	0.32	0.29

These consolidated interim condensed financial statements were approved by management on 27 November 2018 and were signed on its behalf by:

Director General

P.A. Livinsky

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО "РОССИЙСКИЕ СЕТИ" * ОГРН 1087760000019 * МОСКВА *
ПАО "Россети"

Director for accounting
and reporting – Chief Accountant

D.V. Nagovitsyn

Consolidated Interim Condensed Statement of Financial Position
(in millions of Russian roubles, unless otherwise stated)

	Notes	30 September 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,996,306	1,940,227
Intangible assets	12	17,171	16,758
Investments in associates and joint ventures		1,348	883
Trade and other receivables	14	88,797	74,483
Assets related to employee benefits plans		6,289	6,709
Financial investments	13	43,868	69,914
Deferred tax assets		10,059	7,178
Total non-current assets		**2,163,838**	**2,116,152**
Current assets			
Inventories		38,164	35,050
Financial investments	13	7,638	149
Income tax prepayments		5,028	4,528
Trade and other receivables	14	167,355	151,466
Cash and cash equivalents	15	108,284	102,054
Total current assets		**326,469**	**293,247**
Total assets		**2,490,307**	**2,409,399**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	200,903	200,903
Share premium		213,098	213,098
Treasury shares		(109)	(2,702)
Other reserves		12,532	25,430
Retained earnings		703,852	621,077
Total equity attributable to owners of the Company		**1,130,276**	**1,057,806**
Non-controlling interest		385,547	365,755
Total equity		**1,515,823**	**1,423,561**
Non-current liabilities			
Loans and borrowings	18	489,434	506,990
Trade and other payables	19	52,560	39,840
Employee benefits liabilities		27,725	32,717
Deferred tax liabilities		84,258	76,202
Total non-current liabilities		**653,977**	**655,749**
Current liabilities			
Loans and borrowings	18	59,500	51,244
Trade and other payables	19	251,214	261,926
Provisions		9,610	10,561
Current income tax liabilities		183	6,358
Total current liabilities		**320,507**	**330,089**
Total liabilities		**974,484**	**985,838**
Total equity and liabilities		**2,490,307**	**2,409,399**

Consolidated Interim Condensed Statement of Cash Flows
(in millions of Russian rubles, unless otherwise stated)

		Nine months ended 30 September	
	Notes	**2018**	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**88,659**	**81,022**
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets	9	87,527	82,542
Finance costs	10	20,405	22,759
Finance income	10	(12,518)	(13,899)
(Gain)/loss on disposal of property, plant and equipment		(532)	163
Share of (profit)/loss of associates and joint ventures, net of income tax		(328)	13
(Gain on derecognition of subsidiary)/Loss on regain of control over subsidiaries		(690)	12,639
Allowance for expected credit losses	9	18,175	6,054
Bad debt write-off		184	281
Non-cash receipt of property, plant and equipment		(2,150)	(2,601)
Accounts payable write-off		(445)	(359)
Non-cash settlements of technological connection agreements		(1,257)	(1,716)
Other non-cash transactions		(96)	(160)
Income tax expense		27,949	28,705
Total impact of adjustments		**136,224**	**134,421**
Change in assets related to employee benefits plans		420	(177)
Change in employee benefit liabilities		(3,124)	(1,438)
Cash flows from opearing acitivities before changes in working capital		**222,179**	**213,828**
Changes in working capital:			
Change in trade and other receivables		(17,871)	(6,089)
Change in inventories		(3,538)	(6,905)
Change in trade and other payables		10,396	383
Change in provisions		(951)	(4,030)
Cash flows from operating activities before income tax and interest paid		**210,215**	**197 187**
Income tax paid		(23,382)	(23,409)
Interest paid		(30,539)	(35,184)
Net cash flows from operating activities		**156,294**	**138,594**

Consolidated Interim Condensed Statement of Cash Flows
(in millions of Russian rubles, unless otherwise stated)

		Nine months ended 30 September	
	Notes	**2018**	**2017**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(131,656)	(127,224)
Proceeds from sale of property, plant and equipment and intangible assets		978	866
Acquisition of investments and placement of bank deposits		(28,171)	(26,357)
Disposal of investments and withdrawal of bank deposits		20,721	19,014
Interest received		5,184	7,584
Sale of financial investments		1,048	–
Dividends received		2,253	2,500
Net cash flows used in investing activities		**(129,643)**	**(123,617)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings	18	567,746	322,935
Repayment of loans and borrowings	18	(576,072)	(333,309)
Proceeds from share premium		–	1,404
Acquisition of non-controlling interests		(476)	–
Sale of own shares		1,214	–
Dividends paid		(12,721)	(9,704)
Repayment of finance lease liabilities		(112)	(199)
Net cash flows used in financing activities		**(20,421)**	**(18,873)**
Net increase in cash and cash equivalents		**6,230**	**(3,896)**
Cash and cash equivalents at the beginning of the period	15	**102,054**	**86,970**
Cash and cash equivalents at the end of the period	15	**108,284**	**83,074**

Consolidated Interim Condensed Statement of Changes in Equity
(in millions of Russian roubles, unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2017	**200,903**	**213,098**	**(2,702)**	**25,430**	**621,077**	**1,057,806**	**365,755**	**1,423,561**
Changes in accounting policy	–	–	–	(208)	208	–	–	–
Balance at 1 January 2018 (restated)	**200,903**	**213,098**	**(2,702)**	**25,222**	**621,285**	**1,057,806**	**365,755**	**1,423,561**
Profit for the period	–	–	–	–	63,722	63,722	24,937	88,659
Other comprehensive income/(loss)	–	–	–	(17,556)	23,247	5,691	1,829	7,520
Related income tax	–	–	–	4,866	–	4,866	1,141	6,007
Total comprehensive income/(loss) for the period	–	–	–	**(12,690)**	**86,969**	**74,279**	**27,907**	**102,186**
Transactions with owners of the Company								
Contributions and distributions								
Sale of treasury shares (Note 16)	–	–	2,593	–	(1,379)	1,214	–	1,214
Dividends	–	–	–	–	(2,442)	(2,442)	(10,462)	(12,904)
Total contributions and distributions	–	–	**2,593**	–	**(3,821)**	**(1,228)**	**(10,462)**	**(11,690)**
Changes in ownership interests in subsidiaries								
Shares issued by subsidiaries	–	–	–	–	(581)	(581)	332	(249)
Changes in ownership								
Derecognition of subsidiary	–	–	–	–	–	–	2,015	2,015
Total transactions with owners of the Company	–	–	**2,593**	–	**(4,402)**	**(1,809)**	**(8,115)**	**(9,924)**
Balance at 30 September 2018	**200,903**	**213,098**	**(109)**	**12,532**	**703,852**	**1,130,276**	**385,547**	**1,515,823**

Consolidated Interim Condensed Statement of Changes in Equity
(in millions of Russian roubles, unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Treasury shares**	**Reserve for issue of shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2017	**198,071**	**212,978**	**(2,702)**	**1,678**	**33,165**	**521,300**	**964,490**	**340,149**	**1,304,639**
Profit for the period	–	–	–	–	–	37,216	37,216	16,787	54,003
Other comprehensive loss	–	–	–	–	(744)	–	(744)	(325)	(1,069)
Related income tax	–	–	–	–	106	–	106	48	154
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**–**	**(638)**	**37,216**	**36,578**	**16,510**	**53,088**
Transactions with owners of the Company									
Contributions and distributions									
Issue of shares	2,832	120	–	(1,678)	–	–	1,274	–	1,274
Dividends	–	–	–	–	–	(1,152)	(1,152)	(8,701)	(9,853)
Total contributions and distributions	**2,832**	**120**	**–**	**(1,678)**	**–**	**(1,152)**	**122**	**(8,701)**	**(8,579)**
Changes in ownership interests in subsidiaries									
Shares issued by subsidiaries	–	–	–	–	–	(728)	(728)	824	96
Total transactions with owners of the Company	**2,832**	**120**	**–**	**(1,678)**	**–**	**(1,880)**	**(606)**	**(7,877)**	**(8,483)**
Balance at 30 September 2017	**200,903**	**213,098**	**(2,702)**	**–**	**32,527**	**556,636**	**1,000,462**	**348,782**	**1,349,244**

1. Background

a) The Group and its operations

Joint Stock Company IDGC Holding (hereinafter referred to as "JSC IDGC Holding") was established on 1 July 2008 in accordance with the resolution of the Extraordinary General Meeting of the Shareholders of the Unified Energy System of Russia (hereinafter referred to as "RAO UES") dated 26 October 2007, as a spin-off of RAO UES.

At an Extraordinary General Meeting of Shareholders of JSC IDGC Holding on 23 March 2013, the decision was made to amend the Charter of JSC IDGC Holding, under which it was renamed JSC Russian Grids. On 4 April 2013, the respective changes to the Charter of JSC IDGC Holding were registered by the Interregional Inspectorate of the Federal Tax Service of Russia No. 46 for the city of Moscow.

Due to changes in the Civil Code of the Russian Federation at the Annual General Shareholders' Meeting held on 30 June 2015 the changes of organizational and legal form in the Charter of the Company were approved. JSC Russian Grids changed to Public Joint stock company «ROSSETI» (hereinafter referred to as PJSC «ROSSETI» or the "Company").

The ordinary and preference shares of the Company are traded on the Moscow Exchange. The Company's GDRs are traded on the London Stock Exchange.

The Company's registered address is Moscow, Russia.

The legal address of the Company: 4 Belovezhskaya Street, Moscow, Russia, 121353.

The primary activities of PJSC «ROSSETI» and its subsidiaries (hereinafter referred to as the "Group" or "ROSSETI Group") are provision of services for transmission and distribution of electricity for power grids, as well as the provision of services for technological connection of consumers to the network. The Group's power distribution companies sell electricity. The Group's principal subsidiaries are disclosed in Note 5.

b) The Group's business environment

The Group's operations are 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 ongoing deterioration of the political situation, caused by growing tension between the Russian Federation and the United States of America, the European Union and related events have 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 other countries, 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 Rouble, 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 future economic trend of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

The consolidated interim condensed financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

c) Relations with state

The Russian Government through the Federal Agency for the Management of State Property is the ultimate controlling party of the Company. The Group is supported by the Russian Government due to its strategic position in the Russian Federation. The Group's customer base includes a large number of state-controlled entities.

As at 30 September 2018 the Russian Government owned 88.04 % in the share capital of the Company, including 88.89 % of the voting ordinary shares and 7.01 % of the preference shares.

The Group's strategic business units (see Note 6) are regional natural monopolies. The Russian Government directly affects the Group's operations through tariffs regulations. In accordance with the Russian legislation, the Group's tariffs are regulated by executive authorities of subjects of the Russian Federation in the field of state regulation of tariffs and Federal Antimonopoly Service. Many customers of the Group's services are government-related entities.

2. Basis of preparation

a) Statement of compliance

These consolidated interim condensed financial statements for the three and nine months ended 30 September 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting. These consolidated interim condensed financial statements should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017 prepared under International Financial Reporting Standards (hereinafter – IFRS).

b) Use of professional judgements and estimates

The preparation of consolidated interim condensed financial statements in conformity with IFRS requires management to make a number of professional judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these consolidated interim condensed financial statements significant professional judgements and key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for the period ended 31 December 2017.

The management constantly reviews assumptions and estimates based on previous experience and other factors that affect the application of accounting policies and the reported amounts of assets and liabilities. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected by these changes.

c) Change in presentation

Reclassification of comparative information

Certain amoints of the previous year have been adjusted to conform with the current year disclosures. All reclassifications are immaterial.

3. Significant accounting policies

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2017, except for the effect of adopted new standards as described below.

The following new standards were adopted by the Group starting from 1 January 2018:

a) IFRS 15 «Revenue from Contracts with Customers»

The Group recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. Revenue is measured at the fair value of the consideration received or a portion thereof. To the extent that the Group expects to recover in exchange for the transfer of the pledged assets to the customer, excluding any amounts received from third parties (e.g., net of recoverable taxes).

Electricity distribution and sales of electricity

Revenue from distribution and sales of electricity is recognized during the period (settlements month) and is estimated by the results method (cost of transferred electricity volumes). The tariffs for the distribution of electricity (in respect to all subjects of the Russian Federation) and sale of electricity on the regulated market (in respect of subjects of the Russian Federation, not united in the price zones of the wholesale electricity market) are approved by the executive authorities of subjects of the Russian Federation (hereinafter - regional regulatory authority) in the sphere of the state energy tariff regulation within the range of cap and (or) floor tariffs approved by the Federal Antimonopoly Service of the Russian Federation.

Services for technological connection to electric grids

Recognition of revenue from this type of service is performed at the beginning of the electricity supply and connection of the consumer to the power grid on the basis of the act on technological connection.

Payment for technological connection for an individual project, the standardized tariff rates, the rates per unit of maximum capacity and fee's formula for the technical connection are approved by the regional energy commission (the department of prices and tariffs of the corresponding region) and do not depend on the proceeds from the provision of electricity transmission services.

Payment for technological connection to the unified national electric network is approved by the Federal Antimonopoly Service.

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

Other revenue

Revenue from installation, repair and maintenance services and other sales is recognized when the customer obtains control over the asset.

In accordance with the transition provisions in IFRS 15, the Group elected to apply IFRS 15 retrospectively with cumulative effect of initially applying a Standard to be recognized as an adjustment to retained earnings as at 1 January 2018. The application of the standard had no material impact on the Group's consolidated interim condensed financial statements and therefore the retained earnings as at 1 January 2018 were not restated.

b) IFRS 9 «Financial instruments»

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

According to IFRS 9, the financial assets are classified in the following measurement categories: those to be measured subsequently at amortised cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

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

(in millions of Russian roubles, unless otherwise stated)

In respect of impairment, IFRS 9 replaced the "incurred loss" model used in IAS 39, Financial instruments: Recognition and Measurement, with a new "expected credit loss" ("ECL") model that requires a more timely recognition of expected credit losses. An allowance for expected credit losses shall be recorded for financial assets classified as at amortised cost.

Under IFRS 9, loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument. For trade receivables, the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. For other financial assets classified as at amortised cost, including some shareholders' loans provided, loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

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

On 1 January 2018 the Group has assessed which business models apply to the financial assets held at the date of initial application of IFRS 9 "Financial instruments" and has classified its financial instruments onto appropriate IFRS 9 categories. The main effects resulting from those reclassification are as follows:

		Reclassification of financial assets as at 1 January 2018			
	Balance as at 1 January 2018 under IAS 39	Carried at fair value through profit or loss	Carried at fair value through other comprehensive income	Carried at amortised cost	**Balance as at 1 January 2018 under IFRS 9**
Financial assets available-for-sale	67,024	(609)	(66,415)	–	–
Financial assets held – to - maturity	3,039	–	–	(3,039)	–
At fair value through profit or loss	–	609	–	–	609
At fair value through other comprehensive income	–	–	66,415	–	66,415
At amortised cost	–	–	–	3,039	3,039
Total:	**70,063**	**–**	**–**	**–**	**70,063**

(in millions of Russian roubles, unless otherwise stated)

The impact of the changes on the Group's equity, net of deffered tax, was as follows:

	Effect on available-for-sale reserve	Effect on measured at fair value through other comprehensive income reserves	Effect on retained earnings
Opening balance at 1 January 2018 under IAS 39	**33,784**	**–**	**208**
Reclassification of investments from available-for-sale into measured at fair value through other comprehensive income	(33,784)	33,992	(208)
Total impact	**(33,784)**	**33,992**	**(208)**
Opening balance at 1 January 2018 under IFRS 9	**–**	**33,992**	**–**

The table below reflects the original measurement category according to IAS 39 and the new measurement category according to IFRS 9:

	Measurement category		Carrying amount		
	IAS 39	**IFRS 9**	**IAS 39**	**IFRS 9**	**Difference**
Non-current financial assets					
Financial investments, including:					
Equity shares	*Available-for-sale*	*Measured at fair value through other comprehensive income*	66,415	66,415	–
Shares	*Available-for-sale*	*Measured at fair value through other profit or loss*	609	609	–
Deposits with maturity of more than 12 months and promissory notes	*Held- to- maturity*	*Amortised cost*	2,890	2,890	–
Trade and other receivables, loans given	*Amortised cost*	*Amortised cost*	69,426	69,426	–
Current financial assets					
Financial investments, including:					
Deposits with maturity of less than 12 months and promissory notes	*Held- to- maturity*	*Amortised cost*	149	149	–
Trade and other receivables, loans given	*Amortised cost*	*Amortised cost*	129,890	129,890	–
Cash and cash equivalents	*Amortised cost*	*Amortised cost*	102,054	102,054	–
Non-current and current financial liabilities					
Loans and borrowings, accounts payable	*Amortised cost*	*Amortised cost*	745,007	745,007	–

The following new standards and interpretations, which are effective as at 1 January 2018, had no impact on the Group's consolidated interim condensed financial statements:

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2);
- Transfers of Investment Property (Amendments to IAS 40);
- Annual Improvements to IFRSs 2014-2016 Cycle;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

The following new standards and interpretations that are mandatory for the annual periods beginning on or after 1 January 2019, and which the Group has not early adopted:

IFRS 16 Leases. The standard was issued in January 2016 and it replaces 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 in the Legal Form of a Lease. IFRS 16 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 sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees − leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). The Group intends to apply both exemptions. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The Group will be required to recognize separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group is considering the implication of this standard for the Group's consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);
- IFRIC 23 Uncertainty over Income Tax Treatments;
- IFRS 17 Insurance Contracts.

4. Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair value for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Group uses observable market data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level of the input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(in millions of Russian roubles, unless otherwise stated)

5. Significant subsidiaries

	Country of incorporation	Ownership/voting, % 30 September 2018	Ownership/voting, % 31 December 2017
PJSC “FGC UES”	Russian Federation	80.14	80.14
PJSC “MOESK”	Russian Federation	50.90	50.90
JSC “Tyumenenergo”	Russian Federation	100.00	100.00
PJSC “Lenenergo”	Russian Federation	68.10/69.17	68.10/69.17
PJSC “IDGC of Centre”	Russian Federation	50.23	50.23
JSC “IDGC of Urals”	Russian Federation	51.52	51.52
PJSC “IDGC of Centre and Volga region”	Russian Federation	50.40	50.40
PJSC “Kubanenergo”	Russian Federation	92.78	92.78
PJSC “IDGC of Siberia”	Russian Federation	57.84/55.59	57.84/55.59
PJSC “IDGC of Volga”	Russian Federation	67.97	67.97
PJSC “IDGC of North-West”	Russian Federation	55.38	55.38
PJSC “IDGC of North Caucasus”	Russian Federation	97.30	97.30
JSC “Chechenenergo”	Russian Federation	68.17	68.17
PJSC “IDGC of South”	Russian Federation	65.12	65.12
PJSC “TDC”	Russian Federation	85.77/94.58	85.77/94.58
JSC “Yantarenergo”	Russian Federation	100.00	100.00
JSC “Karachaevo-Cherkesskenergo”	Russian Federation	100.00	100.00
JSC “Kalmenergosbyt”	Russian Federation	100.00	100.00
JSC “Kabbalkenergo”	Russian Federation	65.27	65.27
JSC “Tyvaenergosbyt”	Russian Federation	100.00	100.00
JSC “Sevkavkazenergo”	Russian Federation	55.94	55.94
PJSC “Dagestan Power Sales Company”	Russian Federation	51.00	51.00

6. Information about segments

The Group has fourteen reportable segments, as described below, which are the Group's strategic business units. Each strategic business unit offers electricity distribution services including technological connection services in separate geographical regions of the Russian Federation and is managed separately.

The "other" segment includes several operating segments such as electricity sales, rent services and repair and maintenance services. Unallocated items mainly comprise assets and balances of the Group's headquarter which exercises management activity on remuneration basis.

The Group's management responsible for operating decisions assesses the performance, assets and liabilities of operating segments based on internal management reports prepared based on the data formed in accordance with Russian Accounting Standards. The performance of each reportable segment is measured based on earnings before interest expense, income tax and depreciation and amortization (EBITDA).

EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of the Group's operating segments The reconciliation of items of reportable segments to similar items in these consolidated interim condensed financial statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Information regarding the results of each reportable segments is included below.

(in millions of Russian roubles, unless otherwise stated)

a) Information about reportable segments

For the three months ended 30 September 2018:

	IDGC Siberia and TDC	Tyumen-energo	IDGC Urals	IDGC Volga	IDGC South	Kuban-energo	IDGC North Caucasus	IDGC Centre and Volga Region	IDGC North-West	Lenenergo	Yantar-energo	IDGC Centre	MOESK	FGC UES	Other	Total
Revenue from external customers	13,143	14,073	21,797	15,503	8,826	12,509	2,818	20,901	13,020	18,095	147	21,539	35,787	17,969	19,723	235,850
Inter-segment revenue	28	83	1,771	40	152	2	1,178	89	791	53	1,097	112	15	36,766	12,193	54,370
Total segment revenue	**13,171**	**14,156**	**23,568**	**15,543**	**8,978**	**12,511**	**3,996**	**20,990**	**13,811**	**18,148**	**1,244**	**21,651**	**35,802**	**54,735**	**31,916**	**290,220**
Including																
Electricity transmission	12,154	13,995	17,848	15,062	8,631	12,351	3,340	20,592	8,474	15,821	1,154	20,629	33,027	54,137	2,497	239,712
Connection services	114	22	151	397	51	81	7	157	121	2,210	50	434	2,364	17	153	6,329
Electricity sales	817	–	5,450	–	209	–	457	–	5,027	–	5	104	–	–	18,447	30,516
Other revenue	86	139	119	84	87	79	192	241	189	117	35	484	411	581	10,819	13,663
EBITDA	**2,470**	**2,156**	**3,458**	**3,213**	**2,961**	**2,898**	**(418)**	**4,412**	**770**	**7,564**	**284**	**3,074**	**9,720**	**27,511**	**(2,497)**	**67,576**

For the three months ended 30 September 2017:

	IDGC Siberia and TDC	Tyumen-energo	IDGC Urals	IDGC Volga	IDGC South	Kuban-energo	IDGC North Caucasus	IDGC Centre and Volga Region	IDGC North-West	Lenenergo	Yantar-energo	IDGC Centre	MOESK	FGC UES	Other	Total
Revenue from external customers	12,696	13,484	15,108	14,475	8,807	12,080	2,804	22,044	8,938	15,469	269	20,529	34,076	16,295	23,167	220,241
Inter-segment revenue	85	2	1,562	28	138	1	1,211	46	696	75	1,039	7	4	34,547	9,446	48,887
Total segment revenue	**12,781**	**13,486**	**16,670**	**14,503**	**8,945**	**12,081**	**4,015**	**22,090**	**9,634**	**15,544**	**1,308**	**20,536**	**34,080**	**50,842**	**32,613**	**269,128**
Including																
Electricity transmission	12,531	13,391	16,376	14,345	8,561	11,937	3,304	18,975	9,357	14,096	1,080	19,867	32,323	50,283	2,203	228,629
Connection services	115	41	210	77	84	120	18	254	116	1,268	175	280	1,369	102	210	4,439
Electricity sales	–	–	–	–	226	–	407	2,728	–	–	–	110	–	–	16,121	19,592
Other revenue	135	54	84	81	74	24	286	133	161	180	53	279	388	457	14,079	16,468
EBITDA	**2,120**	**2,297**	**2,499**	**2,826**	**2,748**	**3,115**	**607**	**4,743**	**1,075**	**5,494**	**415**	**3,709**	**6,708**	**33,717**	**49**	**72,122**

(in millions of Russian roubles, unless otherwise stated)

For the nine months ended 30 September 2018:

	IDGC Siberia and TDC	**Tyumen-energo**	**IDGC Urals**	**IDGC Volga**	**IDGC South**	**Kuban-energo**	**IDGC North Caucasus**	**IDGC Centre and Volga Region**	**IDGC North-West**	**Lenenergo**	**Yantar-energo**	**IDGC Centre**	**MOESK**	**FGC UES**	**Other**	**Total**
Revenue from external customers	44,643	41,272	55,953	46,567	26,393	34,764	8,601	68,594	41,666	53,552	579	68,190	112,283	51,876	66,800	721,733
Inter-segment revenue	34	91	5,471	41	371	3	3,655	104	2,570	189	3,598	190	32	108,709	31,516	156,574
Total segment revenue	**44,677**	**41,363**	**61,424**	**46,608**	**26,764**	**34,767**	**12,256**	**68,698**	**44,236**	**53,741**	**4,177**	**68,380**	**112,315**	**160,585**	**98,316**	**878,307**
Including																
Electricity transmission	42,446	41,040	54,922	45,919	25,757	34,382	10,322	64,321	29,393	49,135	3,756	65,720	105,904	158,902	7,927	739,846
Connection services	332	49	428	521	198	225	26	573	286	4,218	316	1,215	5,292	82	876	14,637
Electricity sales	1,707	–	5,791	–	641	–	1,331	3,317	14,093	–	12	382	–	–	59,799	87,073
Other revenue	192	274	283	168	168	160	577	487	464	388	93	1,063	1,119	1,601	29,714	36,751
EBITDA	**7,508**	**4,036**	**5,996**	**8,405**	**5,510**	**6,163**	**(169)**	**17,679**	**5,032**	**21,232**	**1,102**	**12,462**	**28,575**	**105,146**	**(2,320)**	**226,357**

For the nine months ended 30 Septmeber 2017:

	IDGC Siberia and TDC	**Tyumen-energo**	**IDGC Urals**	**IDGC Volga**	**IDGC South**	**Kuban-energo**	**IDGC North Caucasus**	**IDGC Centre and Volga Region**	**IDGC North-West**	**Lenenergo**	**Yantar-energo**	**IDGC Centre**	**MOESK**	**FGC UES**	**Other**	**Total**
Revenue from external customers	41,635	42,815	46,484	42,404	25,194	30,955	8,262	64,351	29,813	47,727	520	65,725	104,665	40,395	65,968	656,913
Inter-segment revenue	137	5	5,046	30	344	3	3,532	67	2,218	277	3,478	15	71	103,249	25,623	144,095
Total segment revenue	**41,772**	**42,820**	**51,530**	**42,434**	**25,538**	**30,958**	**11,794**	**64,418**	**32,031**	**48,004**	**3,998**	**65,740**	**104,736**	**143,644**	**91,591**	**801,008**
Including																
Electricity transmission	41,174	42,375	50,734	41,967	24,247	30,494	9,835	60,904	30,884	42,819	3,641	63,680	99,509	140,486	7,887	690,636
Connection services	286	290	542	294	303	396	73	513	626	4,640	234	911	4,195	1,815	1,363	16,481
Electricity sales	–	–	–	–	610	–	1,200	2,728	–	–	–	389	–	–	52,883	57,810
Other revenue	312	155	254	173	378	68	686	273	521	545	123	760	1,032	1,343	29,458	36,081
EBITDA	**7,718**	**6,524**	**9,262**	**7,982**	**5,478**	**5,301**	**1,156**	**16,903**	**4,952**	**17,577**	**1,061**	**14,359**	**24,305**	**102,921**	**(2,460)**	**223,039**

(in millions of Russian roubles, unless otherwise stated)

As at 30 September 2018:

	IDGC Siberia and TDC	Tyumen-energo	IDGC Urals	IDGC Volga	IDGC South	Kuban-energo	IDGC North Caucasus	IDGC Centre and Volga Region	IDGC North-West	Lenenergo	Yantar-energo	IDGC Centre	MOESK	FGC UES	Other	Total
Segment assets	**82,109**	**150,446**	**69,028**	**62,268**	**44,129**	**76,937**	**34,352**	**103,277**	**56,686**	**206,311**	**26,130**	**118,229**	**340,600**	**1,424,361**	**149,126**	**2,943,989**
Including property, plant and equipment and comstruction-in-progress	59,671	142,218	52,381	50,035	27,821	61,699	22,196	78,100	43,988	167,988	21,685	99,168	303,430	1,161,358	72,109	2,363,847

As at 31 December 2017:

	IDGC Siberia and TDC	Tyumen-energo	IDGC Urals	IDGC Volga	IDGC South	Kuban-energo	IDGC North Caucasus	IDGC Centre and Volga Region	IDGC North-West	Lenenergo	Yantar-energo	IDGC Centre	MOESK	FGC UES	Other	Total
Segment assets	**78,479**	**147,816**	**66,359**	**63,291**	**44,461**	**71,857**	**34,548**	**101,518**	**53,951**	**205,678**	**24,109**	**119,666**	**342,208**	**1,425,040**	**148,080**	**2,927,061**
Including property, plant and equipment and comstruction-in-progress	55,096	141,268	51,736	49,735	28,697	59,659	22,579	75,889	42,342	168,639	18,863	99,672	304,656	1,158,091	73,680	2,350,602

(in millions of Russian roubles, unless otherwise stated)

b) Reconciliation of reportable segment EBITDA is presented below:

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
EBITDA of reportable segments	**67,576**	**72,122**	**226,357**	**223,039**
Adjustment of allowance for expected credit losses and impairment allowance of advances given	1,154	(2,106)	794	(835)
Provisions	943	795	714	2,119
Adjustments for financial lease	56	98	227	314
Adjustment for disposal of property, plant and equipment	272	(100)	316	(326)
Discounting of financial instruments	305	(380)	875	1,649
Adjustment on assets related to employee benefits	(71)	(514)	(420)	177
Adjustment for deferred expenses	(110)	69	(23)	146
Recognition of retirement and other long-term employee benefit obligation	1,826	221	1,490	(194)
Adjustment of impairment of intercompany promissory notes	–	333	–	(110)
Gain on derecognition of subsidiary/(loss on regain of control over subsidiaries)	–	–	690	(12,639)
Re-measurement of financial assets measured at fair value through other comprehensive income (transfer of re - measurement to equity)	2,160	1	(6,946)	39
Other adjustments	2,001	1,956	(725)	903
Unallocated items	146	(146)	(1,283)	(1,172)
EBITDA	**76,258**	**72,349**	**222,066**	**213,110**
Depreciation and amortization	(29,791)	(27,120)	(87,527)	(82,542)
Interest expenses on financial liabilities	(5,747)	(6,566)	(17,812)	(20,737)
Interest expenses on finance lease liabilities	(12)	(35)	(119)	(104)
Income tax expense	(8,986)	(11,609)	(27,949)	(28,705)
Profit for the period per consolidated interim condensed statement of profit or loss and other comprehensive income	**31,722**	**27,019**	**88,659**	**81,022**

(in millions of Russian roubles, unless otherwise stated)

7. Revenue

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
Electricity transmission	195,853	188,000	609,122	567,538
Sales of electricity and capacity	28,583	18,132	80,782	52,463
Technological connection services	6,313	4,429	14,603	16,348
Other revenue	3,559	9,867	15,137	19,988
	234,308	**220,428**	**719,644**	**656,337**

Other revenues are mainly comprised of revenue from construction services, rental income, repair and maintenance services.

8. Other income, net

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
Income in the form of fines and penalties on commercial contracts	3,385	3,923	10,289	10,322
Income from identified non-contracted electricity consumption	943	591	2,668	2,595
Income from compensation of losses in connection with retirement / liquidation of electric grid assets	498	765	1,765	1,783
Gain on deconsolidation of subsidiary / (Loss on regain of control over subsidiaries)	–	–	690	(12,639)
Net other income	1,344	1,110	3,636	2,116
	6,170	**6,389**	**19,048**	**4,177**

As at 30 June 2018 the Group derecognised investments in OJSC Ingushenergo as a subsidiary due to loss of control (recognition of the company as a bankrupt, the appointment of a liquidator and OJSC Ingushenergo’s insovency proceedings); gain on derecognition of OJSC Ingushenergo amounted to RUB 690 million.

For the nine months ended 30 September 2017 loss on regain of control over subsidiaries includes loss on regain of control over OJSC Nurenergo in the amount of RUB 12,627 million.

(in millions of Russian roubles, unless otherwise stated)

9. Operating expenses

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
Personnel costs	43,535	43,591	135,434	131,163
Depreciation and amortization	29,791	27,120	87,527	82,542
Material expenses, including:				
Electricity for compensation of losses	27,995	25,869	100,285	81,993
Electricity for sale	17,478	10,704	46,039	28,966
Purchased electricity and heat power for own needs	357	440	2,850	2,746
Other material costs	12,232	11,655	31,005	28,132
Production work and services, including:				
Electricity transmission services	36,044	34,437	110,696	104,350
Repair and maintenance services	5,089	5,563	11,296	10,808
Other works and industrial services	2,702	5,609	8,880	10,169
Taxes and levies other than income tax	8,040	6,207	23,704	18,763
Rent	1,811	1,641	5,221	4,640
Insurance	582	575	1,722	1,734
Other third-party services, including:				
Communication services	626	634	1,865	1,829
Security services	1,249	1,177	3,652	3,429
Consulting, legal and audit services	817	546	1,689	1,290
Software costs and servicing	611	309	1,612	1,572
Transportation services	785	700	2,002	1,915
Other services	1,905	1,981	5,938	5,677
Allowance for expected credit losses	2,914	691	18,175	6,054
Provisions	416	1,378	1,671	1,885
Other expenses	1,970	4,135	13,262	12,257
	196,949	**184,962**	**614,525**	**541,914**

(in millions of Russian roubles, unless otherwise stated)

10. Finance income and costs

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
Finance income				
Interest income on loans, bank deposits and accounts, and promissory notes	1,807	1,946	5,207	5,849
Interest income on assets related to employee benefits plans	(5)	–	15	440
Dividends	6	13	2,246	2,500
Unwind of discount of financial assets	1,464	1,578	4,510	4,187
Other finance income	353	423	540	923
	3,625	**3,960**	**12,518**	**13,899**

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
Finance costs				
Interest expenses on financial liabilities measured at amortized cost	(5,747)	(6,566)	(17,812)	(20,737)
Interest expenses on finance lease liabilities	(12)	(35)	(119)	(104)
Interest expenses on long-term defined benefit liabilities	(425)	(467)	(1,551)	(1,562)
Other finance costs	(356)	(122)	(923)	(356)
	(6,540)	**(7,190)**	**(20,405)**	**(22,759)**

(in millions of Russian roubles, unless otherwise stated)

11. Property, plant and equipment

	Land plots and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/Deemed cost						
At 1 January 2017	**254,538**	**1,212,811**	**980,599**	**287,328**	**352,733**	**3,088,009**
Reclassification between groups	1,692	(2,025)	(290)	623	–	–
Additions	463	2,650	622	3,437	133,732	140,904
Transfers	(599)	24,212	30,169	5,182	(58,964)	–
Disposals	(158)	(659)	(791)	(1,001)	(1,040)	(3,649)
At 30 September 2017	**255,936**	**1,236,989**	**1,010,309**	**295,569**	**426,461**	**3,225,264**
Accumulated depreciation and impairment						
At 1 January 2017	**(75,560)**	**(525,807)**	**(446,440)**	**(176,143)**	**(65,491)**	**(1,289,441)**
Reclassification between groups	(696)	97	98	(136)	637	–
Depreciation charge	(2,657)	(29,831)	(31,822)	(15,696)	–	(80,006)
Disposals	50	443	654	946	10	2,103
At 30 September 2017	**(78,863)**	**(555,098)**	**(477,510)**	**(191,029)**	**(64,844)**	**(1,367,344)**
Net book value						
At 1 January 2017	**178,978**	**687,004**	**534,159**	**111,185**	**287,242**	**1,798,568**
At 30 September 2017	**177,073**	**681,891**	**532,799**	**104,540**	**361,617**	**1,857,920**

(in millions of Russian roubles, unless otherwise stated)

	Land plots and buildings	**Electricity transmission networks**	**Equipment for electricity transmission**	**Other**	**Construction in progress**	**Total**
Cost/Deemed cost						
At 1 January 2018	**265,463**	**1,281,956**	**1,074,003**	**311,445**	**401,175**	**3,334,042**
Reclassification between groups	242	(440)	148	50	–	–
Additions	447	1,261	990	4,205	139,110	146,013
Transfers	5,077	25,582	36,459	10,308	(77,426)	–
Disposals	(309)	(498)	(882)	(1,340)	(3,932)	(6,961)
At 30 September 2018	**270,920**	**1,307,861**	**1,110,718**	**324,668**	**458,927**	**3,473,094**
Accumulated depreciation and impairment						
At 1 January 2018	**(83,527)**	**(564,321)**	**(488,699)**	**(196,108)**	**(61,160)**	**(1,393,815)**
Reclassification between groups	107	(32)	(1,178)	(91)	1,194	–
Depreciation charge	(6,894)	(31,180)	(30,678)	(16,501)	–	(85,253)
Disposals	81	243	581	1,309	66	2,280
At 30 September 2018	**(90,233)**	**(595,290)**	**(519,974)**	**(211,391)**	**(59,900)**	**(1,476,788)**
Net book value						
At 1 January 2018	**181,936**	**717,635**	**585,304**	**115,337**	**340,015**	**1,940,227**
At 30 September 2018	**180,687**	**712,571**	**590,744**	**113,277**	**399,027**	**1,996,306**

Capitalized borrowing costs for the nine months ended 30 September 2018 amounted to RUB 11,299 million (for the nine months ended 30 September 2017: RUB 13,509 million), with capitalization rates of 4.85 – 11.25% (for the nine months ended 30 September 2017: 7.00 – 11.85%).

(in millions of Russian roubles, unless otherwise stated)

12. Intangible assets

	Software	Licenses, certificates and patents	Other	Total
Cost				
At 1 January 2017	**21,564**	**143**	**11,132**	**32,839**
Reclassification between groups	60	39	(99)	–
Additions	841	470	782	2,093
Disposals	(341)	(2)	(279)	(622)
At 30 September 2017	**22,124**	**650**	**11,536**	**34,310**
Accumulated amortization and impairment				
At 1 January 2017	**(12,225)**	**(102)**	**(3,708)**	**(16,035)**
Reclassification between groups	8	(8)	–	–
Amortization charge	(1,835)	(19)	(733)	(2,587)
Disposals	341	2	151	494
At 30 September 2017	**(13,711)**	**(127)**	**(4,290)**	**(18,128)**
Net book value				
At 1 January 2017	**9,339**	**41**	**7,424**	**16,804**
At 30 September 2017	**8,413**	**523**	**7,246**	**16,182**
Cost				
At 1 January 2018	**23,173**	**720**	**10,732**	**34,625**
Reclassification between groups	74	–	(74)	–
Additions	2,354	226	321	2,901
Disposals	(493)	(41)	(135)	(669)
At 30 September 2018	**25,108**	**905**	**10,844**	**36,857**
Accumulated amortization and impairment				
At 1 January 2018	**(13,847)**	**(140)**	**(3,880)**	**(17,867)**
Amortization charge	(1,803)	(58)	(523)	(2,384)
Disposals	488	40	37	565
At 30 September 2018	**(15,162)**	**(158)**	**(4,366)**	**(19,686)**
Net book value				
At 1 January 2018	**9,326**	**580**	**6,852**	**16,758**
At 30 September 2018	**9,946**	**747**	**6,478**	**17,171**

Capitalized borrowing costs for the nine months ended 30 September 2018 amounted to RUB 49 million (for the nine months ended 30 September 2017: RUB 24 million), with capitalization rates of 7.68–8.19% (for the nine months ended 30 September 2017: 8.76 – 9.68%).

(in millions of Russian roubles, unless otherwise stated)

13. Financial investments

	30 September 2018	31 December 2017
Non-current		
Financial assets measured at amortised cost	3,148	–
Financial assets measured at fair value through other comprehensive income	40,134	–
Financial assets measured at fair value through profit or loss	586	–
Available-for-sale financial assets	–	67,024
Financial assets held-to-maturity	–	2,890
	43,868	**69,914**
Current		
Financial assets measured at amortised cost	7,638	–
Financial assets held-to-maturity	–	149
	7,638	**149**

Financial assets measured at fair value through other comprehensive income at 30 September 2018 are mainly represented by the shares of PJSC "Inter RAO UES" (as at 31 December 2017 - financial assets available-for-sale). Fair value of these shares is based on published market quotations and amounted to RUB 39,652 million and RUB 65,947 million respectively.

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 RUB 3.3463 per share. As at 30 September 2018 6,608,643 thousand shares 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 of PJSC "Inter RAO UES" 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 RUB 2,957 million relating to the part of financial investment in PJSC "Inter RAO UES" shares sold to to JSC "Inter RAO Capital" and "DVB Leasing" LLC on 29 June 2018 and on 31 July 2018 respectively. Accumulated revaluation reserve, net of tax, relating to shares disposed and amounted to RUB 23,247 million has been reclassified from reserves to retained earnings.

(in millions of Russian roubles, unless otherwise stated)

Financial assets measured at amortised cost at 30 September 2018 and financial assets held to maturity at 31 December 2017 are mainly represented by bank deposits with an original maturity of more than three months.

	Interest rate	**Rating**	**Rating agency**	**30 September 2018**	**31 December 2017**
VTB Bank (PJSC)*	6.40-7.00	BBB-	Standard & Poor’s	5,459	–
OJSC Bank Tavrichesky	0.51	–	–	2,828	2,664
Bank GPB (JSC)*	6.55-7.46	BB+	Standard & Poor’s	1,125	35
JSC Alfa-Bank	8.15	BB+	Standard & Poor’s	948	–
JSC Russian Agricultural Bank*	6.55	BB+	Fitch Ratings	102	–
JSC AB ROSSIYA	–	A+(RU)	ACRA	–	96
PJSC Sberbank*	–	BBB-	Fitch Ratings	–	3
				10,462	**2,798**

*Government-related

(in millions of Russian roubles, unless otherwise stated)

14. Trade and other receivables

	30 September 2018	31 December 2017
Non-current trade and other accounts receivable		
Trade receivables	59,999	69,415
Allowance for expected credit losses on trade receivables	(650)	(742)
Other receivables	23,796	609
Allowance for expected credit losses on other receivables	(66)	–
Loans given	120	144
Total financial assets	**83,199**	**69,426**
Advances given	7,299	7,309
Advances given impairment allowance	(6,621)	(6,635)
VAT on advances from customers	4,920	4,383
	88,797	**74,483**
Current trade and other accounts receivable		
Trade receivables	219,186	200,448
Allowance for expected credit losses on trade receivables	(98,579)	(85,608)
Other receivables	42,711	29,630
Allowance for expected credit losses on other receivables	(16,524)	(14,739)
Loans given	289	339
Allowance for expected credit loss on current loans given	(154)	(180)
Total financial assets	**146,929**	**129,890**
Advances given	14,302	17,113
Advances given impairment allowance	(8,321)	(8,858)
VAT recoverable	2,529	2,161
VAT on advances from customers and VAT on advances given for purchase of property, plant and equipment	11,102	10,035
Prepaid taxes, other than income tax	814	1,125
	167,355	**151,466**

As at 30 September 2018 long-term accounts receivable and other receivables include amounts of RUB 21,686 million and RUB 7,497 million due from JSC “Inter RAO Capital” and “DVB Leasing” LLC under the share sales agreement (Note 13).

(in millions of Russian roubles, unless otherwise stated)

15. Cash and cash equivalents

	30 September 2018	31 December 2017
Cash at banks and in hand	32,432	44,234
Cash equivalents	75,852	57,820
	108,284	**102,054**

	Rating	Rating agency	30 September 2018	31 December 2017
PJSC Sberbank*	BBB-	Fitch Ratings	10,063	16,945
JSC AB ROSSIYA	A+(RU)	ACRA	6,940	5,322
Bank GPB (JSC)*	BB+	Standard & Poor’s	5,422	11,425
UFK*	–	–	5,264	4,464
VTB Bank (PJSC)*	BBB-	Standard & Poor’s	2,112	1,183
PJSC RNCB*	A(RU)	ACRA	1,273	3,354
JSC «Alfa-Bank»	BB+	Standard & Poor’s	1,043	815
Other banks			254	670
Cash in hand			61	56
			32,432	**44,234**

*Government-related

Cash equivalents primarily consist of bank deposits placed with a number of banks for less than three months.

	Interest rate	Rating	Rating agency	30 September 2018	31 December 2017
VTB Bank (PJSC)*	6.55-7.91	BBB-	Standard & Poor’s	54,458	11,712
Bank GPB (JSC)*	6.20-7.15	BB+	Standard & Poor’s	10,553	21,263
PJSC Sberbank*	4.36-7.60	BBB-	Fitch Ratings	5,254	8,759
JSC «Alfa-Bank»	7.25-7.92	BB+	Standard & Poor’s	1,753	3,302
JSC AB ROSSIYA	7.05	A+(RU)	ACRA	1,703	9,228
JSC Russian Agricultural Bank*	6.50-7.60	BB+	Fitch Ratings	944	3,282
Other banks				–	43
				74,665	**57,589**

* Government-related

As at 30 September 2018 and as at 31 December 2017 all cash and cash equivalents balances were RUB nominated.

(in millions of Russian roubles, unless otherwise stated)

16. Equity

a) Share capital

	Ordinary shares		Preference shares	
	30 September 2018	**31 December 2017**	**30 September 2018**	**31 December 2017**
Par value	RUB 1	RUB 1	RUB 1	RUB 1
On issue 1 January	198,827,865,141	195,995,579,707	2,075,149,384	2,075,149,384
On issue at the end of the year and fully paid	198,827,865,141	198,827,865,141	2,075,149,384	2,075,149,384

b) Ordinary and preference shares

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

Holders of preference shares are entitled to an annual dividend equal to 10% of net statutory profit divided by 25% of all shares. If the amount of dividends paid by the Company for each ordinary share in a given year exceeds the amount payable as a dividend on each preference share, the dividend rate payable on the latter must be increased to the amount of dividends on ordinary shares.

Preference shares carry the right to vote on all issues within the competence of general shareholders' meetings following the Annual Shareholders' Meeting at which a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at general shareholders' meetings ceases from the date of the first full payment of dividends on such shares. The dividend is not cumulative, however. The preference shares also carry the right to vote, but this right is limited according to the amendments of the Company Charter, which include reorganization and liquidation, also the delisting of preferred shares.

In the event of liquidation, preference shareholders receive any declared unpaid dividends and the par value of the preference shares. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

c) Dividends

The basis for distribution of profits of the Company's profit to shareholders is defined by Russian legislation as net profit presented in its statutory financial statements prepared in accordance with the Regulations on Accounting and Reporting of the Russian Federation.

On 29 June 2018 the annual General meeting of shareholders decided not to pay dividends on preference and ordinary shares of PJSC "ROSSETI" on the results of 2017 and to pay dividends on preference and ordinary shares of PJSC "ROSSETI" for the first quarter of 2018 in the amount of RUB 2,468 million (for preference shares in the amount of RUB 0.04287 per one preferrence share and on ordinary shares in the amount of RUB 0.011965 per one ordinary share).

d) Treasury shares

Information regarding treasury shares is presented below:

30 September 2018			31 December 2017		
Number of shares, mln.		Cost, mln. RUB	Number of shares, mln.		Cost, mln. RUB
Ordinary	Preference		Ordinary	Preference	
3	308	109	1,486	308	2,702

Due to completion of the shares repurchase period by the participants of the option program approved by the Company's Board of Directors on 9 November 2010, the Group has sold 402,185,598 own shares as at 30 September 2018.

On 28 August 2018 the Group has concluded sales agreement to sell 1,080,646,965 own shares to "GENNORD PROJECTS LIMITED" company. The transaction price amounted to RUB 900 million. As at 30 September 2018 shares were transferred to the buyer.

17. Earnings per share

The calculation of the basic earnings per share for the three and nine months ended 30 September 2018 and 30 September 2017 is given below. The Company does not have dilutive financial instruments.

	Three months ended 30 September		**Nine months ended 30 September**	
In millions of shares	**2018**	**2017**	**2018**	**2017**
Issued shares at 1 January	198,828	195,996	198,828	195,996
Effect of own shares held	(3)	(1,486)	(3)	(1,486)
Effect of issued shares	–	2,491	–	2,491
Weighted average number of shares for the period ended 30 September	**198,825**	**197,001**	**198,825**	**197,001**

	Three months ended 30 September		**Nine months ended 30 September**	
	2018	**2017**	**2018**	**2017**
Weighted average number of ordinary shares for the period ended 30 September (in millions of shares)	198,825	197,001	198,825	197,001
Profit for the period attributable to holders of ordinary shares	23,118	20,742	63,722	57,958
Profit per ordinary share (in RUB) – basic and diluted	**0.11**	**0.10**	**0.32**	**0.29**

(in millions of Russian roubles, unless otherwise stated)

18. Loans and borrowings

	30 September2018	31 December 2017
Non-current liabilities		
Unsecured loans and borrowings	219,120	220,682
Unsecured bonds	316,792	333,193
Finance lease liabilities	1,329	984
Less: current portion of long-term finance lease liabilities	(320)	(400)
Less: current portion of long-term loans and borrowings	(13,075)	(22,269)
Less: current portion of long-term bonds	(34,412)	(25,200)
	489,434	**506,990**
Current liabilities		
Unsecured loans and borrowings	11,334	3,016
Promissory notes	359	359
Current portion of long-term finance lease liabilities	320	400
Current portion of long-term loans and borrowings	13,075	22,269
Current portion of long-term bonds	34,412	25,200
	59,500	**51,244**
Including:		
Interests payable on loans and borrowings	228	233
Interests payable on bonds	3,488	4,849
	3,716	**5,082**

As at 30 September 2018 and 31 December 2017, loans and borrowings are denominated in roubles.

(in millions of Russian roubles, unless otherwise stated)

The Group raised the following significant bank loans and borrowings and issued the following significant bonds during the nine months ended 30 September 2018:

	Nominal interest rates	**Maturity**	**Nominal value**
Unsecured bank loans*	7.15–10.80%	2018–2021	449,570
Unsecured bank loans*	7.50–11.15%	2018–2021	45,243
Unsecured bank loans*	7.20–10.65%	2018–2021	35,066
Unsecured bank loans	7.12–11.00%	2018–2021	15,567
Unsecured bank loans*	7.70–10.00%	2018–2021	8,425
Unsecured bonds	6.95%	2021	5,000
Unsecured bank loans	Key rate of CB RF + 0.58–0.70%	2021	3,000
Unsecured bank loans	7.49–7.80%	2018–2020	2,471
Unsecured bank loans	8.75–11.00%	2018–2019	900
Unsecured bank loans	7.70–9.05%	2018	715
Unsecured bank loans	10.99–11.00%	2018–2019	580
Unsecured bank loans*	7.59–7.83%	2018–2021	470
Unsecured bank loans	7.75–13.00%	2018–2019	415
Unsecured bank loans	10%	2020	200
Other unsecured loans and borrowings	–	2018–2026	135
			567,757

* Loans from government-related entities

The Group repaid the following significant bank loans and bonds during the nine months ended 30 September 2018:

	Nominal value
Loans from government-related entities	536,553
Bonds	20,083
Other loans and borrowings	19,436
	576,072

(in millions of Russian roubles, unless otherwise stated)

19. Trade and other payables

	30 September 2018	31 December 2017
Non-current accounts payable		
Trade payables	15,635	14,651
Other payables	1,167	587
Total financial liabilities	**16,802**	**15,238**
Advances from customers	35,758	24,602
	52,560	**39,840**
Current accounts payable		
Trade payables	131,251	135,193
Other payables and accrued expenses	13,774	16,124
Payables to employees	16,408	19,872
Dividends payable	588	346
Total financial liabilities	**162,021**	**171,535**
Advances from customers	65,971	71,264
	227,992	**242,799**
Taxes payable		
Value-added tax	11,547	9,170
Property tax	6,946	5,304
Social security contributions	3,265	3,476
Other taxes payable	1,464	1,177
	23,222	**19,127**
	251,214	**261,926**

As at 30 September 2018 and 31 December 2017 long-term trade accounts payable mainly relate to contracts for the purchase of property, plant and equipment in instalments.

(in millions of Russian roubles, unless otherwise stated)

20. Financial risk and capital management

The Group's financial risk and capital management objectives and policies and the assumptions made in measuring fair values are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2017.

The fair values and carrying amounts of financial assets and liabilities are as follows:

		30 September 2018		**Level of fair value hierarchy**		
	Note	**Carrying amount**	**Fair value**	**1**	**2**	**3**
Loans given and receivables	14	230,128	230,128	–	–	230,128
Other financial assets measured at amortized cost	13	10,786	10,786	–	–	10,786
Financial assets measured at fair value through profit or loss	13	586	586	–	–	586
Financial assets measured at fair value through other comprehensive income	13	40,134	40,134	40,021	–	113
Cash and cash equivalents	15	108,284	108,284	108,284	–	–
Current and non-current loans and borrowings	18	(548,934)	(545,220)	(93,287)	(310,866)	(141,067)
Trade and other payables	19	(178,823)	(178,823)	–	–	(178,823)
Total:		**(337,839)**	**(334,125)**	**55,018**	**(310,866)**	**(78,277)**

		31 December 2017		**Level of fair value hierarchy**		
	Note	**Carrying amount**	**Fair value**	**1**	**2**	**3**
Loans given and receivables	14	199,316	199,316	–	–	199,316
Available-for-sale financial assets	13	67,024	67,024	66,298	–	726
Financial assets held to maturity	13	3,039	3,039	–	–	3,039
Cash and cash equivalents	15	102,054	102,054	102,054	–	–
Current and non-current loans and borrowings	18	(558,234)	(552,494)	(114,057)	(297,113)	(141,324)
Trade and other payables	19	(186,773)	(186,773)	–	–	(186,773)
Total:		**(373,574)**	**(367,834)**	**54,295**	**(297,113)**	**(125,016)**

The interest rate used to discount the expected future cash flows for long-term and short-term loans borrowings for the purpose of determining the fair value disclosed as at 30 September 2018 was 7.35 – 8.84 % (as at 31 December 2017: 7.90 – 9.80%).

(in millions of Russian roubles, unless otherwise stated)

The reconciliation of the carrying amount of financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income at the beginning and end of the reporting period is provided in the table below:

	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income
At 1 January 2018	**609**	**66,415**
Purchase	–	–
Selling	–	(30,161)
Change in fair value recognized in other comprehensive income	–	3,880
Change in fair value recognized in profit or loss	(23)	–
At 30 September 2018	**586**	**40,134**

As of 30 September 2018, the amount of free limit on open but unused credit lines of the Group was RUB 572,875 million (31 December 2017: RUB 437,473 million). The Group has opportunity to attract additional financing within the corresponding limits, including for the purpose of execution of the short-term obligations.

21. Capital commitments

As at 30 September 2018, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment items for RUB 296,889 million, including VAT (as at 31 December 2017: RUB 261,598 million including VAT).

22. Contingencies

a) Insurance

The Group has unified requirements in respect of the volume of insurance coverage, reliability of insurance companies and about procedures of insurance protection organization. The Group maintains insurance of assets, civil liability and other insurable risks. The main business assets of the Group have insurance coverage, including coverage in case of damage or loss of assets. However, there are risks of negative impact on the operations and the financial position of the Group in case of damage caused to third parties, and also as a result of damage or loss of assets, insurance protection of which is non-existent or not fully implemented.

b) Taxation contingincies

The current taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements, and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation. These circumstances may lead to tax risks in the Russian Federation being much higher than in other countries.

Management of the Group believes that it has adequately provided for tax assets and liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions; the Group’s tax, currency and customs positions will be sustained. However, the interpretations of the relevant authorities could differ and have an effect on these consolidated financial statements if the authorities were successful in enforcing their interpretations.

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.

c) Legal proceedings

The Group is party to a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the consolidated interim condensed financial statements.

d) Environmental matters

The Group has been operating in the electric transmission industry in the Russian Federation for many years. The legislation on environmental protection in the Russian Federation continues to develop, the duties of the authorized state bodies to monitor its compliance are reviewed. Potential liabilities arising as a result of a change in interpretation of existing regulations, civil litigation or changes in legislation cannot be estimated Under existing legislation, management believes that there are no probable liabilities, which will have a material adverse effect on the Group’s financial position, results of operations or cash flows.

e) Guarantees

As at 30 September 2018 the Company acts as a guarantor to Infrastructural Investments-3 LLC for the performance of its subsidiaries' obligations under lease agreements. The total amount of the guarantee is RUB 11,556 million.

23. Related party transactions

a) Control relationships

The Russian Federation holds the majority of the voting shares of the Company. It is the ultimate controlling party of the Group.

b) Transactions with the key management personnel

In order to prepare these consolidated interim condensed financial statements, the key management personnel are members of the Management Board and the Board of Directors of PJSC “ROSSETI” and general directors (sole executive body) of subsidiaries engaged in transmission and distribution of electric power through electric grids.

The remuneration for key management personnel consists of the salary stipulated by the employment contract, non-monetary benefits, bonuses determined based on the results for the period, and other payments. Remuneration or compensation is not payable to members of the Board of Directors who are government employees.

(in millions of Russian roubles, unless otherwise stated)

The amounts of the key management personnel remuneration disclosed in the table are recognized as an expense related to the key management personnel during the reporting period and included in personnel costs:

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
Short-term remuneration to employees	296	315	518	567
Post-employment benefits	1	–	6	3
Total	**297**	**315**	**524**	**570**

As of 30 September 2018, the carrying value of defined benefit plan, defined contribution plan and other post-employment benefit plans reported in the consolidated statement of financial position includes liabilities related to the key management personnel for RUB 77 million (31 December 2017: RUB 71 million).

c) Transactions with government-related entities

In the course of its operating activities the Group is engaged in many transactions with government-related entities. These transactions are carried out in accordance with regulated tariffs or based on market prices.

Revenues from government-related entities of total revenues, including revenues from electricity transmission and electricity transmission costs (including compensation of technological losses) for government-related entities of total transmission costs, are shown below.

	Three months ended 30 September		Nine months ended 30 September	
	2018	**2017**	**2018**	**2017**
Revenues	38%	39%	37%	40%
Revenues from electricity transmission	38%	43%	39%	43%
Electricity transmission costs (including compensation of technological losses)	30%	30%	29%	29%

For the nine months ended 30 September 2018 interest expenses on government-related banks loans amounted to RUB 9,322 million (for the nine months ended 30 September 2017: RUB 12,539 million).

As at 30 September 2018 cash and cash equivalents held in government-related banks amounted to RUB 94,133 million (as at 31 December 2017: RUB 82,506 million).

As at 30 September 2018 deposits with an original maturity of more than three months placed in government-related banks amounted to RUB 6,796 million (as at 31 December 2017: RUB 38 million).

As at 30 September 2018 long-term accounts receivable and other receivables include amounts of RUB 21,686 million and RUB 7,497 million respectively due from JSC “Inter RAO Capital” under the terms of share sales agreement (Note 13).

Loans and borrowings received from state-controlled entities are disclosed in Note 18.