

PJSC «IDGC of Centre»

**Consolidated Financial Statements prepared in accordance with International
Financial Reporting Standards for the year ended 31 December 2018**

	Contents	Page
	Consolidated Financial Statements	
	Independent auditor's report	3
	Consolidated statement of profit or loss and other comprehensive income	9
	Consolidated statement of financial position	10
	Consolidated statement of cash flows	11
	Consolidated statement of changes in equity	12
	Notes to the consolidated financial statements	14
1	Background.....	14
2	Basis of preparation of consolidated financial statements.....	15
3	Significant accounting policies.....	23
4	Measurement of fair value.....	32
5	Significant subsidiaries.....	32
6	Information about segments.....	33
7	Revenue.....	40
8	Net other income.....	40
9	Operating expenses.....	41
10	Personnel costs.....	41
11	Finance income and costs.....	42
12	Income tax.....	43
13	Property, plant and equipment.....	44
14	Intangible assets.....	50
15	Financial investments.....	51
16	Deferred tax assets and liabilities.....	52
17	Inventories.....	53
18	Trade and other receivables.....	54
19	Cash and cash equivalents.....	55
20	Equity.....	55
21	Earnings per share.....	56
22	Loans and borrowings.....	57
23	Changes in liabilities arising from financial activities.....	59
24	Employee benefits.....	61
25	Trade and other payables.....	64
26	Provisions.....	65
27	Financial risk and capital management.....	65
28	Operating leases.....	71
29	Capital commitments.....	71
30	Contingencies.....	71
31	Related party transactions.....	73
32	Events after the reporting date.....	75

Independent auditor's report

To Shareholders and Board of Directors of
Public Joint-Stock Company "Interregional Distribution
Grid Company of Centre"

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company "Interregional Distribution Grid Company of Centre" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for 2018 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

How our audit addressed the matter

Recognition and measurement of revenue from electricity transmission services

Recognition and measurement of revenue from electricity transmission services was one of the most significant matters for our audit due to certain specifics of the electricity market mechanisms that give rise to the existence of disagreements among electricity supply, utilities, and other companies in relation to the volume and cost of the transmitted electricity. The amount of revenue challenged by counterparties is material to the Group's financial statements. Management's assessment of the probability of settling disputes in the Group's favor is highly subjective. Revenue is recognized when disagreements are resolved in favor of the Group with regard to assumptions.

Information on revenue from electricity transmission services is disclosed in Note 7, 30 (d) to the consolidated financial statements.

We considered the applied accounting policy with regard to the recognition of revenue from electricity transmission services; assessed internal controls over the recognition of this revenue; checked the correctness of the corresponding revenue amounts based on the existing electricity transmission contracts; received, on a selective basis, confirmations of balances of receivables from counterparties; analyzed the results of litigations concerning disputable amounts of services provided, if any; and assessed existing procedures to confirm the volume of electricity transmitted.

Allowance for expected credit losses on trade receivables

The matter of creating allowance for expected credit losses on trade receivables is one of the most significant matters for our audit due to the material balances of trade receivables as of 31 December 2018, as well as due to the fact that management's assessment of the possible recoverability of these receivables is based on assumptions, in particular, on the projected solvency of the Group's customers.

Information on allowance for expected credit losses on trade receivables is disclosed in Note 18, 27 (a) to the consolidated financial statements.

We analyzed the adequacy of the Group's accounting policy on the trade receivables with respect to the creation of allowance for expected credit losses on trade receivables, as well as procedures to confirm the appropriateness of measurements made by the Group's management, including the analysis of repayment of trade receivables, the analysis of maturity and delayed performance of obligations, and the analysis of customers' solvency.

We performed audit procedures in respect of the information used by the Group to determine the allowance for expected credit losses on trade receivables, the structure of receivables by age and maturity, and tested the correctness of the charged allowance amounts based on management's estimates.

Key audit matter

How our audit addressed the matter

Recognition, measurement and disclosure of provisions and contingent liabilities

Recognition, measurement and disclosure of provisions and contingent liabilities in respect of litigations and claims from counterparties (including territorial electric grid and utilities companies) were among the most significant matters for our audit as they require significant judgments of management with respect to material amounts of balances of settlements with counterparties that are challenged in litigations or under the pretrial settlement.

Information on provisions and contingent liabilities is disclosed in Note 26 to the consolidated financial statements.

Audit procedures also involved analyzing decisions made by courts of different instances; considering the adequacy of management's judgments with regard to assessment of the possibility of an outflow of economic resources due to the dispute settlement; examining the compliance of the prepared documentation with provisions of existing contracts and legislation; and reviewing disclosures on provisions and contingent liabilities in notes to the consolidated financial statements.

Impairment of non-current assets

Due to the existence of the impairment indicators of non-current assets as of 31 December 2018, the Group performed impairment testing. The value-in-use of fixed assets, forming a significant share of the Group's non-current assets, as of 31 December 2018, was determined by the projected cash flow method.

The matter of impairment testing of fixed assets was one of the most significant matters for our audit because the fixed assets balance forms a significant part of the Group's assets at the reporting date, and because management's assessment of the value-in-use is complex and largely subjective and is based on assumptions, in particular, on the projected electricity transmission volumes, transmission fees, as well as operating and capital expenditures that depend on the expected future market or economic conditions in the Russian Federation.

Information on the results of the impairment analysis of non-current assets is disclosed by the Group in Note 13 to the consolidated financial statements.

As part of our audit procedures, we also assessed the assumptions and methodologies applied by the Group, in particular, those relating to projected total revenue from the electricity transmission, fee solutions, operating and capital expenditures, long-term rates of fee growth and discount rates. We tested the incoming data imported in the model and the arithmetic accuracy of the model used to determine the recoverable amount in the impairment test of fixed assets. We engaged valuation specialists to analyze the model used to determine the recoverable amount in the impairment test of fixed assets. We also analyzed the sensitivity of the model to changes in the main indicators of assessment and the Group's disclosures of assumptions on which the results of impairment testing largely depend.

Key audit matter

How our audit addressed the matter

Assessment of retirement and other liabilities to employees

The Group has defined benefit pension plans.

Assessment of retirement and other liabilities to employees is a significant audit matter as management determines carrying values of defined benefit pension plans and the discounted value of respective liabilities on the basis of actuarial valuation that includes certain assumptions, and the amount of liabilities under defined benefit pension plans at the reporting date is highly sensitive to changes in those assumptions. Such assumptions include, but are not limited to, mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels as well as the expected return on plan asset.

Information on pension liabilities is disclosed in Note 24 to the consolidated financial statements.

In the course of our audit procedures we also analyzed the applied assumptions, made sample testing of the Group's employee data used for actuarial calculations, as well as performed analytical procedures in respect of the carrying value of liabilities under the defined benefit pension plans and their changes during the period. We engaged the professional actuaries to provide assistance with these audit procedures. We also reviewed the respective disclosures in the consolidated financial statements.

Other matters

The financial statements of the Public Joint-Stock Company "Interregional Distribution Grid Company of Centre" and its subsidiaries for 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 15 March 2018.

The financial statements of the Public Joint-Stock Company "Interregional Distribution Grid Company of Centre" and its subsidiaries for 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 15 March 2017.

Other information included in the Company's annual report

Other information consists of the information included in the Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and Audit Committee of the Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee of the Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is T.L. Okolotina.



T.L. Okolotina
Partner
Ernst & Young LLC

18 March 2019

Details of the audited entity

Name: Public Joint-Stock Company "Interregional Distribution Grid Company of Centre"
Record made in the State Register of Legal Entities on 17 December 2004, State Registration Number 1046900099498.
Address: Russia 127018, Moscow, 2-Yamskaya street, 4.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

PJSC «IDGC of Centre»
Consolidated Statement of profit or loss and other comprehensive income
for the year ended 31 December 2018
(in thousands of Russian rubles, unless otherwise stated)

		Year ended 31 December	
	Notes	2018	2017 (restated)
Revenue	7	93,935,259	91,115,571
Operating expenses	9	(87,861,825)	(83,057,852)
Other income, net	8	1,302,620	1,124,181
Result from operating activities		7,376,054	9,181,900
Finance income	11	125,277	442,309
Finance costs	11	(3,405,876)	(4,227,271)
Total financial costs		(3,280,599)	(3,784,962)
Profit before income tax		4,095,455	5,396,938
Income tax expense	12	(1,099,613)	(2,599,748)
Profit for the year		2,995,842	2,797,190
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in fair value of available-for-sale financial assets	15	—	(23,235)
Income tax related to items that may be reclassified subsequently to profit or loss	16	—	4,647
Total items that may be reclassified subsequently to profit or loss		—	(18,588)
<i>Items that will never be reclassified subsequently to profit or loss</i>			
Changes in the fair value of equity investments accounted for at fair value through other comprehensive income	15	1,955	—
Remeasurements of the defined benefit liability	24	125,617	(246,845)
Income tax related to items that will never be reclassified subsequently to profit or loss	16	(8,122)	28,476
Total items that will not be reclassified subsequently to profit or loss		119,450	(218,369)
Other comprehensive income/(expense) for the year, net of income tax		119,450	(236,957)
Total comprehensive income for the year		3,115,292	2,560,233
Profit attributable to:			
Equity holders of the Company		2,935,245	2,753,147
Non-controlling interests		60,597	44,043
Total comprehensive income attributable to:			
Equity holders of the Company		3,054,695	2,516,190
Non-controlling interests		60,597	44,043
Earnings per share			
Basic and diluted earnings per ordinary share (in RUB)	21	0.070	0.065

These consolidated financial statements were approved by management on 18 March 2019 and were signed on its behalf by:

General Director

I.V. Makovskiy

Chief Accountant

L.A. Sklyarova

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

PJSC «IDGC of Centre»
Consolidated Statements of Financial Position
for the year ended 31 December 2018
(in thousands of Russian rubles, unless otherwise stated)

	Notes	31 December 2018	31 December 2017 (restated) (Notes 2(h))	1 January 2017 (restated) (Notes 2(h))
ASSETS				
Non-current assets				
Property, plant and equipment	13	87,860,303	84,633,932	82,667,093
Intangible assets	14	2,784,394	2,380,170	2,345,282
Trade and other receivables	18	585,262	1,037,558	166,251
Assets related to employee benefits plans	24	549,081	541,679	500,305
Financial investments	15	191,900	189,945	213,181
Total non-current assets		91,970,940	88,783,284	85,892,112
Current assets				
Inventories	17	2,735,443	2,128,986	2,099,699
Income tax prepayments		379,356	421,709	1,382,137
Trade and other receivables	18	12,252,673	11,295,073	13,977,188
Cash and cash equivalents	19	787,053	1,362,307	2,567,305
Total current assets		16,154,525	15,208,075	20,026,329
Total assets		108,125,465	103,991,359	105,918,441
EQUITY AND LIABILITIES				
Equity				
Share capital	20	4,221,794	4,221,794	4,221,794
Other reserves		(199,285)	(318,735)	(81,778)
Retained earnings		40,580,643	38,516,878	37,630,159
Total equity attributable to equity holders of the Company		44,603,152	42,419,937	41,770,175
Non-controlling interest		259,822	199,225	165,809
Total equity		44,862,974	42,619,162	41,935,984
Non-current liabilities				
Loans and borrowings	22	29,076,926	33,989,210	39,282,692
Trade and other payables	25	708,840	923,355	1,035,516
Employee benefits	24	1,950,777	2,432,135	2,202,613
Deferred tax liabilities	16	5,129,281	5,136,081	4,614,843
Total non-current liabilities		36,865,824	42,480,781	47,135,664
Current liabilities				
Loans and borrowings	22	11,312,750	7,491,456	3,995,795
Trade and other payables	25	14,266,857	10,828,220	11,822,357
Provisions	26	812,931	487,743	1,026,203
Current income tax liabilities		4,129	83,997	2,438
Total current liabilities		26,396,667	18,891,416	16,846,793
Total liabilities		63,262,491	61,372,197	63,982,457
Total equity and liabilities		108,125,465	103,991,359	105,918,441

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

PJSC «IDGC of Centre»
Consolidated Statements of Cash Flows
for the year ended 31 December 2018
(in thousands of Russian rubles, unless otherwise stated)

		Year ended 31 December	
	Notes	2018	2017 (restated) (Notes 2(h))
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		4,095,455	5,396,938
<i>Adjustments for:</i>			
Depreciation and amortization of property, plant and equipment and intangible assets	9,13,14	9,909,297	9,399,597
Impairment of property, plant and equipment	9,13	96,886	939,120
Finance costs	11	3,405,876	4,227,271
Finance income	11	(125,277)	(442,309)
Loss on disposal of property, plant and equipment		45,150	28,736
Provision for expected credit losses/ Allowance for impairment of accounts receivable, net	9	536,876	(104,112)
Bad debt write-off		7,707	183,870
Other non-cash transactions		16,394	(44,767)
Total impact of adjustments		13,892,909	14,187,406
Change in assets related to employee benefits plans		(7,402)	(41,374)
Change in employee benefit liabilities		(521,048)	(182,096)
Cash flows from operating activities before changes in working capital and provisions		17,459,914	19,360,874
<i>Changes in working capital:</i>			
Change in trade and other receivables		(1,111,639)	1,661,597
Change in inventories		(602,306)	(24,923)
Change in trade and other payables		2,871,506	(847,371)
Change in provisions		325,188	(538,460)
Cash flows from operating activities before income taxes and interest paid		18,942,663	19,611,717
Income tax paid		(1,152,050)	(1,003,122)
Interest paid		(3,353,648)	(4,340,980)
Net cash flows from operating activities		14,436,965	14,267,615
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(13,098,407)	(12,259,626)
Proceeds from the sale of property, plant and equipment and intangible assets		13,039	20,838
Interest received		53,971	359,729
Dividends received		14,419	14,608
Net cash flows used in investing activities		(13,016,978)	(11,864,451)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		104,063,884	32,715,717
Repayment of loans and borrowings		(105,189,311)	(34,468,817)
Dividends paid		(868,222)	(1,853,130)
Repayment of finance lease liabilities		(1,592)	(1,932)
Net cash flows used in financing activities		(1,995,241)	(3,608,162)
Net decrease in cash and cash equivalents		(575,254)	(1,204,998)
Cash and cash equivalents at the beginning of year		1,362,307	2,567,305
Cash and cash equivalents at the end of year	19	787,053	1,362,307

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

PJSC «IDGC of Centre»
Consolidated Statement of Changes in Equity
For the year ended 31 December 2018
(in thousands of Russian rubles, unless otherwise stated)

	Notes	Attributable to equity holders of the Company					Non-controlling interest	Total equity
		Share capital	Reserves	Retained earnings	Total			
Balance at 31 December 2017		4,221,794	(318,735)	40,060,231	43,963,290		199,225	44,162,515
Effect of recount		-	-	(1,543,353)	(1,543,353)		-	(1,543,353)
Balance at 1 January 2018 (restated)		4,221,794	(318,735)	38,516,878	42,419,937		199,225	42,619,162
Profit for the year		-	-	2,935,245	2,935,245		60,597	2,995,842
Other comprehensive income	15,24	-	127,572	-	127,572		-	127,572
Related income tax		-	(8,122)	-	(8,122)		-	(8,122)
Total comprehensive income for the year		-	119,450	2,935,245	3,054,695		60,597	3,115,292
Transactions with equity holders of the Company								
Dividends	20	-	-	(879,028)	(879,028)		-	(879,028)
Other	20	-	-	7,548	7,548		-	7,548
Total transactions with equity holders of the Company		-	-	(871,480)	(871,480)		-	(871,480)
Balance at 31 December 2018		4,221,794	(199,285)	40,580,643	44,603,152		259,822	44,862,974

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

PJSC «IDGC of Centre»
Consolidated Statement of Changes in Equity
For the year ended 31 December 2018
(in thousands of Russian rubles, unless otherwise stated)

	Attributable to equity holders of the Company				Non-controlling interest	Total equity
	Share capital	Reserves	Retained earnings	Total		
Balance at 31 December 2016	4,221,794	(81,778)	38,947,905	43,087,921	165,809	43,253,730
Effect of recount	-	-	(1,317,746)	(1,317,746)	-	(1,317,746)
Balance at 1 January 2017 (restated) (Notes 2(h))	4,221,794	(81,778)	37,630,159	41,770,175	165,809	41,935,984
Profit for the year	-	-	2,753,147	2,753,147	44,043	2,797,190
Other comprehensive income/(expense)	-	(270,080)	-	(270,080)	-	(270,080)
Related income tax	-	33,123	-	33,123	-	33,123
Total comprehensive income/(expense) for the year	-	(236,957)	2,753,147	2,516,190	44,043	2,560,233
Transactions with equity holders of the Company						
Dividends	-	-	(1,866,675)	(1,866,675)	(11,117)	(1,877,792)
Other	-	-	247	247	490	737
Total transactions with equity holders of the Company	-	-	(1,866,428)	(1,866,428)	(10,627)	(1,877,055)
Balance at 31 December 2017 (restated) (Notes 2(h))	4,221,794	(318,735)	38,516,878	42,419,937	199,225	42,619,162

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

1 Background

(a) The Group and its operation

The primary activities of Public Joint-Stock Company “Interregional distribution grid company of Centre” (hereinafter referred to as the PJSC “IDGC of Centre” or the “Company”) and its subsidiaries (hereinafter together referred to as the “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, as well as the sale of electricity to the end consumer in a number of regions of the Russian Federation.

The parent company is PJSC “Rosseti”.

PJSC “IDGC of Centre” and its subsidiaries comprise Russian public and joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 17 December 2004 based on Resolution no. 154p of 9 December 2004 and pursuant to the Board of Directors’ decision (board of directors’ meeting minutes no. 178 of 1 October 2004) and Management Board decision (Management Board meeting minute no. 1102 of 15 November 2004) of Open Joint-Stock Company RAO “United Energy Systems of Russia” (hereinafter - “RAO UES”). From 07 July 2015, OJSC “IDGC of Centre” is renamed as PJSC “IDGC of Centre” based on the Decision of the Annual General Meeting of Shareholders of OJSC “IDGC of Centre” dated 25.06.2015 (minutes No. 01/15 of 26.06.2015), in order to bring it in line with the legal requirements.

The average number of employees Group was 29,967 employees as at 31 December 2018 (ase at 31 December 2017: 29,864 employees).

The Company’s registered office is 2nd Yamskaya St., 4, Moscow, 127018, Russia.

The Company’s de facto address is 2nd Yamskaya St., 4, Moscow, 127018, Russia.

In September 2017, the Company took over the functions of the sole Executive body of Public joint stock company "Interregional distribution grid company of Center and Volga region" (hereafter PJSC "IDGC of Center and Volga region") pursuant to the Board of Directors’ decision (Board of directors’ meeting Minutes no. 22/17 of 07 September 2017). Between PJSC "IDGC of Centre" and JSC "IDGC of Center and Volga region" concluded agreement no. 7700/00313/17 of 11.09.2017 for a period of three years. In accordance with the agreement, PJSC "IDGC of Centre" is the management company for PJSC "IDGC of Center and Volga region". The Company exercises the rights and carries out the duties of the sole Executive body of PJSC "IDGC of Center and Volga region" to the extent and with those limitations which are determined by the legislation of the Russian Federation, the Articles of Association, the internal documents, the decisions of the General meeting of shareholders and/or the Board of Directors of PJSC "IDGC of Center and Volga region".

The Group consists of PJSC “IDGC of Centre” and its subsidiaries, presented in Note 5.

(b) Russian business environment

The Group’s operations are located in the Russian Federation.

The business of the Group is exposed to the economic and financial markets of the Russian Federation, which are characterized by features of the 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 continuing deterioration of the political situation caused by the growing tensions between the Russian Federation and the United States, the European Union and related events have led to a revision of the risk assessments of doing business in the Russian Federation in the direction of increasing.

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

1 Background (continued)

(b) Russian business environment (continued)

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 development 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 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.

As at 31 December 2018, the share of the Russian Federation in the authorized capital of the parent company of PJSC "Rosseti" was 88.04%, including 88.89% of the voting ordinary shares and 7.01% of the preference shares (as at 31 December 2017 was 88.04%, including 88.89% of the voting ordinary shares and 7.01% of the preference shares).

PJSC "Rosseti", in its turn, owns 50.23% of the Company's shares.

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 the constituent entities of the Russian Federation in the field of state regulation of tariffs. The number of consumers of the Group's services includes a large number of enterprises under state control.

2 Basis of preparation of consolidated financial statements

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Each subsidiary of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Russian Accounting Standards ("RAS"). The Group's consolidated financial statements are based on the statutory records with adjustments and reclassifications recorded in the consolidated financial statements for the fair presentations in accordance with IFRS.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except for:

- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble (RUB), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and professional judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make a number of professional judgements, estimates and assumptions that affect the application of accounting

2 Basis of preparation of consolidated financial statements (continued)

(d) Use of estimated and professional judgments (continued)

policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Assumptions and estimates made on their basis are continually evaluated to determine the necessity to change them. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected by these changes.

Professional judgements that have the most significant effect on the amounts recognized in these Consolidated Financial Statements and estimates and assumptions that may require significant adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Impairment of fixed assets

At the end of each reporting period, the Group assesses whether there are any indicators that an asset may be impaired. Such indicators include changes in business plans, tariffs and other factors that may lead to unfavorable conditions for the Group's activities. When calculating the value of use, management estimates the expected cash flows from the asset or group of cash-generating assets and calculates an acceptable discount rate to calculate the present value of these cash flows. Detailed information is presented in the Note "Property, plant and equipment".

Impairment of accounts receivable

Allowance for impairment of accounts receivable is based on management assumptions of debt recovery made for each debtor individually. For the goal of allowance for expected credit losses the Group consistently takes into account all reasonable and verified information about past events, current and forecasted events, which is available without undue effort and is relevant to the assessment of receivables. The experience gained in the past based on the data currently available to reflect current conditions that did not have an impact on previous periods and in order to exclude the impact of past conditions that no longer exist.

Liabilities for the payment of pensions

The costs of the defined benefit pension plan and the related costs of the pension program are determined using actuarial calculations. Actuarial estimates provide for the use of assumptions regarding demographic and financial data. Since this program is long-term, there is considerable uncertainty about such estimates.

Deferred tax assets recognition

At each reporting date management assesses the amount of deferred tax assets and determines the amount to be reflected to the extent in which it is likely to be used as tax allowances. When determining future taxable profit and related tax allowances management uses estimates and assumptions based on prior periods' taxable profit and expectations related to the future profit that are reasonable under the circumstances.

(e) Change accounting policies

The Group has applied the following new standards since 1 January 2018:

i. IFRS 15 Revenue from Contracts with Customers

The Group recognizes revenue when (or as) the performance obligation is fulfilled by transferring the promised good or service (i.e. an asset) to customer. Revenue is measured at the transaction price or its part equal to the amount of consideration to which the Group expects to be entitled in exchange for transferring promised assets to a customer, excluding amounts collected on behalf of third parties (for example, net of recoverable taxes).

The Group recognizes receivables when it has an unconditional right to receive interest under the contract. Obligations under contracts with customers are represented by advances received in the composition of long-term and short-term trade and other payables.

2 Basis of preparation of consolidated financial statements (continued)

(e) Change accounting policies (continued)

Electricity transmission and sales of electricity and capacity

Revenue from electricity transmission and sale is recognized during the period (accounting month) and is estimated by the output methods (cost of transferred volumes of electric energy). The tariffs for the electricity transmission (in respect to all subjects of the Russian Federation) and sale of electricity and capacity on the regulated market (in respect of constituent entities of the Russian Federation, not united in price zones of the wholesale electricity market) are approved by the executive authorities of subjects of the Russian Federation in the field of state regulation of tariffs (hereinafter – regional authority) within the limit minimum and (or) maximum levels approved by the Federal Antimonopoly Service.

Technological connection services

Revenue recognition from this type of services is performed at the beginning of 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 for an unit of maximum capacity and the form of payment for technological 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 applied judgment that technological connection is a separate performance obligation that is recognized when the related services are provided. The technological connection agreement does not contain any further obligations after the provision of the connection service. According to the established practice and laws governing the electricity market, technological connection and transmission of electricity are subject to separate negotiations with different consumers as different services with different commercial purposes without connection in pricing, intentions, recognition or types of services.

Other services

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

In accordance with IFRS 15 transition requirements, the Group has chosen to apply the standard retrospectively with the recognition of the cumulative effect of the initial application as part of the retained earnings opening balance as at 1 January 2018. The application of this standard had no a material impact on the Group's consolidated interim condensed financial statements, respectively, the opening balance of the retained earnings as at 1 January 2018 was not adjusted.

ii. 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 of 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 amortized cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets are classified as at amortized 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.

2 Basis of preparation of consolidated financial statements (continued)

(e) Change accounting policies (continued)

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 amortized 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 amortized cost loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

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

The initial application of the standard did not result in any material changes in the financial Instruments measurement.

On 1 January 2018 (the date of the initial application of IFRS 9 Financial Instruments), The Group assessed the business models it uses to manage financial assets and classified the financial instruments held at that date onto appropriate IFRS 9 measurement categories. The main effects of the classification were the following:

	The balance at 1 January 2018 in accordance with IAS 39	Reclassification of financial assets as at 1 January 2018	The balance at 1 January 2018 in accordance with IFRS 9
Available-for-sale financial assets	189,945	(189,945)	–
Financial assets at fair value through other comprehensive income	–	189,945	189,945
Total	189,945	–	189,945

The previous measurement category according to IAS 39 and the new measurement category according to IFRS 9 are presented below:

	Measurement category		Carrying amount		
	IAS 39	IFRS 9	IAS 39	IFRS 9	Difference
Non-current financial assets					
Financial investments, including:					
Shares	Available-for-sale	At fair value through other comprehensive income	189,945	189,945	–
Trade and other receivables	Amortized cost	Amortized cost	1,034,282	1,034,282	–

2 Basis of preparation of consolidated financial statements (continued)

(e) Change accounting policies (continued)

	Measurement category		Carrying amount		
	IAS 39	IFRS 9	IAS 39	IFRS 9	Difference
Current financial assets					
Trade and other receivables	Amortized cost	Amortized cost	10,681,995	10,681,995	—
Cash and cash equivalents			1,362,307	1,362,307	—
Non-current and current financial liabilities					
Loans and borrowings, accounts payables	Amortized cost	Amortized cost	48,312,192	48,312,192	—

(f) Change in presentation

Reclassification of comparative date

The Group has consistently applied the accounting policies, set out in Note 3 to all period presented in these consolidated interim condensed financial statements.

Certain amounts of the previous year have been adjusted to conform to the current year disclosures.

When necessary, comparative information for the prior periods has been reclassified due to the application of the extended data presentation. The quantitative impact of this reclassification on the comparative information specified in the statement for the year ended 31 December 2017 is set below.

In note 9 “Operating expenses” clarifies the information on the following items in order to present the expenditure amounts in accordance with their substance:

For the year ended 31 December 2017	As previously reported	Effect of change	As restated
Electricity for sale	276,964	196,286	473,250
Other material costs	3,142,730	(196,286)	2,946,444
Other works and industrial services	85,862	354,312	440,174
Communication services	431,992	(160,772)	271,220
Software costs and services	340,636	12,169	352,805
Other services	947,155	(11,914)	935,241
Other expenses	1,060,498	(193,795)	866,703
Total	83,292,307	–	83,292,307

2 Basis of preparation of consolidated financial statements (continued)

(g) Application of new and revised standards and interpretations

Except for changes in accounting policies described in note 2 (e), the following amendments to standards and interpretations effective from 1 January 2018 did not have an impact on these 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);
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- Investments in Associates and Joint Ventures (Amendments to IAS 28);
- Application of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The following new standards and interpretations have been issued and become effective for annual periods beginning on or after 1 January 2019 and have not been early adopted by the Group:

IFRS 16 Leases. The IFRS 16 Leases 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 Involving 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 recognize 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.

In accordance with the transitional provisions of IFRS 16, the Group chose to apply the new rules retrospectively with cumulative effect of the initial application of the standard recognized as at 1 of January 2019, recognizing the lease liability in the present value of the remaining lease payments using the additional interest rate borrowed funds at the date of initial application and the recognition of assets in the form of right of use by a value equal to the lease liability, adjusted for the amount of rental payments made in advance or accrued.

Also the Group plans to use allowed practical simplifications and not apply the new standards to lease agreements that expire within twelve months from the date of transaction.

The main objects of the Group’s lease are electric grid facilities (electricity transmission networks equipment for electricity transmission, etc.) and land. Land lease agreements were concluded in previous periods in respect of the plots on which their own electricity transmission networks, equipment for electricity transmission and other assets of the Group are located. In addition, the Group leases non-residential real estate and vehicles.

2 Basis of preparation of consolidated financial statements (continued)

(g) Application of new and revised standards and interpretations (continued)

The Group is in the process of recalculating the effects of applying IFRS 16 and expects that the effect of applying IFRS 16 may have the following impact on the Group's assets and liabilities:

	<u>As at 1 January 2019</u>
<i>Assets</i>	
The right-of-use assets	2,300,692
Trade and other receivables	(35,349)
<i>Liabilities</i>	
Long-term lease liabilities	2,058,189
Short-term lease liabilities	223,620
Trade and other payables	(16,466)

In March 2018, the IASB issued a new edition of the Conceptual Framework for Financial Reporting. The new edition comes into force for mandatory application, starting from annual periods after January 1, 2020. At present, the Group is analyzing the impact of the new edition on the consolidated financial statements.

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

- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Early repayment terms with potential negative reimbursement;
- Business Combinations (Amendments to IFRS 3);
- Joint Arrangements (Amendments to IFRS11);
- Income Taxes (Amendments to IAS 12) – Tax consequences of payments for Financial Instruments classified as Equity;
- Borrowing Costs (Amendments to IAS 23);
- Long-term investments in associates and joint ventures (Amendments to IAS 28);
- Making changes to a program, reducing a program, or paying off program commitments (Amendments to IAS 19);
- IFRS 17 Insurance Contracts;
- Amendments to IFRS 10 IAS 28 “Sale or contribution of assets in transactions between an investor and its associate or joint venture”.

2 Basis of preparation of consolidated financial statements (continued)

(h) Retrospective restatement

The Group made a retrospective restatement of donated property, plant and equipment. Previously, the Group recorded such property, plant and equipment at fair value, which was determined by an independent appraiser, with the corresponding income reflected in the consolidated statement of profit or loss. Starting from January 1, 2018, the Group reflects similar property, plant and equipment at zero cost. In the Consolidated Financial Statements for 2018, the Group also made a retrospective restatement of deferred tax in respect of allowance for impairment of accounts receivable and for the reserve established in court proceedings in connection with the recognition of permanent tax differences and recalculation of the amount of deferred tax.

The effect of the restatement on these Consolidated Financial Statements is as follows:

Consolidated Statement of Financial Position as at 31 December 2017

31 December 2017	As previously reported	Effect of change	As restated
Property, plant and equipment	85,721,289	(1,087,357)	84,633,932
Total non-current assets	89,870,641	(1,087,357)	88,783,284
Total assets	105,078,716	(1,087,357)	103,991,359
Retained earnings	40,060,231	(1,543,353)	38,516,878
Total equity	44,162,515	(1,543,353)	42,619,162
Deferred tax liabilities	4,680,085	455,996	5,136,081
Total non-current liabilities	42,024,785	455,996	42,480,781
Total equity and liabilities	105,078,716	(1,087,357)	103,991,359

Consolidated Statement of profit or loss and other comprehensive income for the year ended 31 December 2017

For the year ended 31 December 2017	As previously reported	Effect of change	As restated
Revenue	91,115,571	-	91,115,571
Operating expenses	(83,292,307)	234,455	(83,057,852)
Other income, net	1,322,268	(198,087)	1,124,181
Result from operating activities	9,145,532	36,368	9,181,900
Finance income	442,309	-	442,309
Finance costs	(4,227,271)	-	(4,227,271)
Total financial costs	(3,784,962)	-	(3,784,962)
Profit before income tax	5,360,570	36,368	5,396,938
Income tax expense	(2,337,773)	(261,975)	(2,599,748)
Profit for the year	3,022,797	(225,607)	2,797,190
Other comprehensive income for the year	2,785,840	(225,607)	2,560,233
Profit attributable to:			
Equity holders of the Company	2,978,754	(225,607)	2,753,147
Non-controlling interests	44,043	-	44,043
Total comprehensive income attributable to:			
Equity holders of the Company	2,741,797	(225,607)	2,516,190
Non-controlling interests	44,043	-	44,043
Earnings per share			
Basic and diluted earnings per ordinary share (in RUB)	0.071	(0.006)	0.065

2 Basis of preparation of consolidated financial statements (continued)

(h) Retrospective restatement (continued)

Consolidated Statements of Cash Flows for the year ended 31 December 2017

For the year ended 31 December 2017	As previously reported	Effect of change	As restated
Profit before income tax	5 360 570	36 368	5 396 938
Depreciation and amortization of property, plant and equipment	9,634,052	(234,455)	9,399,597
Other non-cash transactions	(242,854)	198,087	(44,767)
Cash flows from operating activities before charges in working capital and provisions	19,584,344	-	19,584,344
Cash flows from operating activities before income taxes and interest paid	19,611,717	-	19,611,717

Consolidated Statement of Financial Position as at 1 January 2017

1 January 2017	As previously reported	Effect of change	As restated
Property, plant and equipment	83,790,818	(1,123,725)	82,667,093
Total non-current assets	87,015,837	(1,123,725)	85,892,112
Total assets	107,042,166	(1,123,725)	105,918,441
Retained earnings	38,947,905	(1,317,746)	37,630,159
Total equity	43,253,730	(1,317,746)	41,935,984
Deferred tax liabilities	4,420,822	194,021	4,614,843
Total non-current liabilities	46,941,643	194,021	47,135,664
Total equity and liabilities	107,042,166	(1,123,725)	105,918,441

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, with the exception of changes in accounting policies disclosed in Note 2 (e) and related to commencement from 1 January 2018 IFRS 15 Revenue from Contracts with customers and IFRS 9 Financial Instruments.

(a) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to risks connected to variable returns from its involvement with the entity or has the right to those returns and has the ability to affect those returns through its power over the entity the Financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses attributable to the non-controlling interests in a subsidiary are allocated to non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

ii. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

The Group measures goodwill at the acquisition date as:

- 1) The fair value of the consideration transferred; plus
- 2) The recognized amount of any non-controlling interests in the acquire; plus
- 3) The fair value of the pre-existing equity interest in the acquire if the business combination is achieved in stages; less
- 4) The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss for the period.

Transaction costs that the Group incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss for the period.

iii. Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners, and there for no goodwill is recognized as a result. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

iv. Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for by the method of the predecessor. The acquired assets and liabilities are recognized at the carrying amounts recognized previously in the consolidated financial statements of the acquired entities. Any cash or other contribution paid for the acquisition is recognized directly in equity.

v. Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment also includes transaction cost. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

vi. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3 Significant accounting policies (continued)

(b) Foreign currency

Monetary assets and liabilities of the Group's entities denominated at the reporting date in foreign currencies have been translated into rubles at the exchange rate at the reporting date. Foreign currency transactions are accounted for at the exchange rate at the transaction date. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

(c) Share capital

Ordinary shares and non-redeemable preference shares are both classified as equity.

(d) Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The deemed cost of property, plant and equipment as at 1 January 2007, the date of transition to IFRS, was determined by using its fair value (deemed cost) at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed (built) assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net in the item "Net other income", within the profit or loss for the period.

ii. Subsequent costs

The cost of replacing part (major component) of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the statement of profit or loss and other comprehensive income as incurred.

iii. Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

- | | |
|--|-------------|
| • buildings | 7-50 years; |
| • transmission networks | 5-40 years; |
| • equipment for electricity transmission | 5-40 years; |
| • other assets | 1-50 years. |

Estimated useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3 Significant accounting policies (continued)

(e) Intangible assets

i. Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates, and joint ventures.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. With respect to associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

ii. Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

iii. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

iv. Amortization

Amortization expense on intangible assets, other than goodwill is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives of intangible assets for the current and comparative period are as follows:

- Licenses and certificates 1-10 years;
- Software 1-15 years.

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as financial leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum (discounted) lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the consolidated statement of the Group's financial position.

(g) Inventories

Inventories are measured at the lower of the cost or net realizable value. The cost of inventories is determined on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business of the Group, less the estimated costs of completion and selling expenses.

(h) Advances issued

Advances given are classified as non-current if they are connected with the acquisition of an asset which will be classified as non-current upon initial recognition. Advances given for the acquisition of an asset are included in its carrying amount upon the acquisition of control over the asset, and when it is probable that the Group will obtain economic benefit from its usage.

3 Significant accounting policies (continued)

(i) Value-added tax

Output value-added tax (VAT) related to sales is payable to the tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. Amounts of VAT related to advances received and given as well as VAT prepayment are recognized in the consolidated statement of financial position on a net basis and disclosed as an asset within accounts receivable (VAT recoverable). Amounts of VAT to be paid to the tax authorities are presented separately within short-term accounts payable. Where a provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(j) Impairment of assets

i. Financial assets

Allowance for expected credit losses on a financial instrument is estimated at each reporting date in an amount equal to the expected credit losses over the entire term, if the credit risk of this financial instrument has increased significantly since the moment of initial recognition, taking into account all reasonable and corroborated information, including forward-looking. For receivables, allowance for expected credit losses is always estimated at an amount equal to the lifetime expected credit losses.

As indicators of a significant increase in credit risk, the Group considers actual or expected difficulties of the issuer or debtor on the asset, actual or expected violation of the terms of the contract, expected revision of the terms of the contract due to the financial difficulties of the debtor under unfavorable conditions for the Group circumstances. Based on the usual practice of credit risk management, the Group defines default as the counterparty's inability to fulfill its obligations (including repayment of funds under the contract) due to a significant deterioration in its financial position.

The impairment loss on a financial asset is reflected by recognizing an allowance for impairment. For a financial asset carried at amortized cost, the amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in subsequent periods the credit risk of the financial asset decreases as a result of an event that occurred after the loss was recognized, the previously recognized impairment loss is reversed by reducing the corresponding estimated reserve. As a result of the restoration, the carrying amount of the asset should not exceed its value, at which it would be reflected in the statement of financial position if the impairment loss was not recognized.

ii. Non-financial assets

The carrying amount of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit (CGU) is presented as the greater of its two values: value in use of the asset (this unit) and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset to CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of CGU. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units which it related to.

3 Significant accounting policies (continued)

(j) Impairment of assets (continued)

The Group's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Costs of corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized with respect to cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the CGU (group of CGU) on a pro rata basis.

An impairment loss with respect to goodwill is not reversed. With respect to other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized.

(k) Employee benefits

i. Defined contributions plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate (independent) entity and will have no further (legal or constructive) obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State Pension Fund, are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

ii. Defined benefit plans

The defined benefit program is a program for the payment of employee benefits at the end of an employment relationship with them, different from the defined benefit program. The liability recognized in the consolidated statement of financial position in respect of defined benefit pension schemes is the discounted liability at the reporting date.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in other comprehensive income/expense.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

iii. Other non-current employee benefits

The Group's net obligation with respect to long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is

3 Significant accounting policies (continued)

(k) Employee benefits (continued)

performed using the projected unit credit method. Remeasurements are recognized in profit or loss in the period in which they arise.

iv. Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably and it is highly probable that there will be an outflow of economic benefits.

(l) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(m) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant related to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

Government grants that compensate the Group for low electricity tariffs (lost income) are recognized in the consolidated statement of profit or loss and other comprehensive income in the same periods in which the respective revenue is earned.

(n) Other expenses

i. Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. The amount of lease incentives received reduces the total lease expenses over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At the inception of an arrangement, The Group determines whether such an arrangement is or contains indicators of a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other considerations required by such an arrangement into those for the lease and those for other elements proportionately to their fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset contract. Subsequently the liability is reduced as payments are made and an imputed finance expense is recognized.

3 Significant accounting policies (continued)

(k) Employee benefits (continued)

ii. Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognized in profit or loss as incurred. The Group costs related to the financing of social programs, without making a commitment with respect to such financing in the future date are recognized in consolidated statement of profit or loss and other comprehensive income as they arise.

(o) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividends income, gains on the disposal of available-for-sale financial assets, discounts on financial instruments, and foreign currency gains. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs are comprised of interest expense on borrowings, financial leasing, foreign currency losses, discounts on financial instruments and impairment losses recognized on financial assets other than trade receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(p) Income tax expense

Income tax expense is comprised of current and deferred tax. It is recognized in profit or loss for the period, except to the extent that it relates to a business combination, or items recognized in other comprehensive income or directly in equity.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable with respect to previous years.

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination, and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rate that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group accrues tax liabilities for open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions, and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

3 Significant accounting policies (continued)

(p) Income tax expense (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income tax levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Profit attributable to ordinary shareholders is calculated by adjusting profit attributable to owners of the Company by profit attributable to holders of preference shares.

(r) Concession Arrangement

The Group applies IFRS 15 to public-private concession arrangement for the provision of services, if: 1. The concession provider controls or regulates what services the operator must provide in relation to the infrastructure, to whom it must provide them and at what price; and 2. the supplier of the concession controls - on the basis of ownership, use rights for the purpose of extracting benefits or other grounds - any significant residual share in the infrastructure at the end of the agreement period.

The Group doesn't recognize the infrastructure of the objects of the concession agreement as property, plant and equipment, because the contractual services agreement doesn't transfer to the Group the right to control the use of the infrastructure.

The Group keeps records of reimbursement for construction services and revenue from electricity transmission services, in accordance with IFRS 15.

The Group recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from the concession provider or at its direction for performing construction services; the concession provider has a small choice to avoid payment, or does not have such a choice at all, usually because the agreement is enforceable.

The Group recognizes an intangible asset to the extent that it obtains the right to charge users of services.

The Group applies IFRS 9 and IFRS 7 for a recognized financial asset.

For a financial asset, the amount receivable from the supplier of the concession, or on its instructions, the Group considers in accordance with IFRS 9, as measured:

- a) at amortized cost;
- b) at fair value through other comprehensive income; or
- c) at fair value through profit or loss.

The Group accounts for an intangible asset in accordance with IAS 38. The Group determines the amortization period for an intangible asset as the period of validity of the concession agreement.

The Group capitalizes borrowing costs in accordance with IAS 23 relating to the construction phase of the concession agreement into the intangible asset. Other borrowing costs related to the concession agreement are recognized by the Group as an expense in the period in which they are incurred.

4 Measurement of fair value

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 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.

5 Significant subsidiaries

		31 December 2018	31 December 2017
	Country of incorporation	Ownership/voting, %	Ownership/voting, %
JSC «Sanatorium «Energetic»	Russian Federation	100	100
JSC «Yaroslavl Electric Grid Company»	Russian Federation	51	51

JSC “Sanatorium “Energetic” provides services for sanatorium-resort service, JSC “Yaroslavl Electric Grid Company” provides services for the transmission and distribution of electricity through electrical networks, services for technological connection of consumers to networks.

At the Subsidiary's annual shareholders meeting JCS “Yaroslavl Electric Grid Company” held on 26 June 2017 the decision was made to distribute the Subsidiary's profit for the year 2016 to dividends in the amount of RUB 22,688 thousand and to pay dividends for the year 2016 in the amount of RUB 22,688.3626 per ordinary share in cash. Dividends payable to shareholders with non-controlling interests, amounted to RUB 11,117 thousand.

At the Subsidiary's annual shareholders meeting JCS “Yaroslavl Electric Grid Company” held on 29 June 2018 the decision was made not to pay dividends on ordinary shares for the year 2017.

6 Information about segments

The Management Board of PJSC “IDGC of Centre” is the supreme body that makes decisions on operating activities.

The primary activities of the 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, as well as the sale of electricity to the end consumer in a number of regions of the Russian Federation. From 2016, the division of the Company Tverenergo performs the electricity guarantee supplier function in the territory of Tver Region.

The internal management system is based on segments (branches formed on a territorial basis) related to transmission and distribution of electricity, technological connection to electric grids and electricity sales to the end user in a number of regions of the Russian Federation.

Revenue indicators and EBITDA are used to reflect the performance of each reportable segment, since they are included in internal management reporting prepared on the basis of RAS reporting data and are regularly analyzed and evaluated by the Management Board. EBITDA is calculated as profit or loss before interest expenses, taxation and depreciation. The Management Board believes, that these indicators are most relevant when assessing the performance of certain segments in relation to other segments and other companies that operate in these industries.

In accordance with the requirements of IFRS 8 the following reportable segments were identified based on segment revenue, EBITDA and the total amount of assets submitted to the Management Board:

- Branch Belgorodenergo, branch Bryanskenergo, branch Voronezhenergo, branch Kostromaenergo, branch Kurskenegero, branch Lipetskenegero, branch Orelenergo, branch Smolenskenergo, branch Tambovenrgo, branch Tverenergo, branch Yarenergo
- Others

The category of “Others” include operations of subsidiaries and the head office branch. None of them meets any of the quantitative thresholds for determining reportable segments.

Segment indicators are based on management information which is prepared on the basis of RAS financial statements and may differ those presented in the financial statements prepared in accordance with IFRS. The reconciliation of the indicators in the evaluation to the Management Board and similar indicators in these consolidated financial statements includes those reclassifications and adjustments that are necessary for reporting in accordance with IFRS.

6 Information about segments (continued)

(a) Information about reportable segments

As at 31 December 2018 and for the year ended 31 December 2018:

	Belgorod energy	Bryansk energy	Voronezh energy	Kostroma energy	Kursk energy	Lipetsk energy	Orel energy	Smolensk energy	Tambov energy	Tver energy	Yar energy	Others	Total
Revenue from external customers	13,202,658	5,192,080	14,243,784	5,270,031	7,444,376	8,974,927	4,599,258	7,685,554	6,086,662	11,202,087	9,778,457	255,327	93,935,201
Inter-segment revenue	—	—	—	—	—	—	—	—	—	—	2,098	455,895	457,993
Segment revenue	13,202,658	5,192,080	14,243,784	5,270,031	7,444,376	8,974,927	4,599,258	7,685,554	6,086,662	11,202,087	9,780,555	711,222	94,393,194
Including													
<i>Electricity transmission</i>	12,363,126	5,115,612	13,819,894	5,157,917	7,065,956	8,658,353	4,540,078	7,469,725	5,917,125	10,470,883	9,436,738	447,515	90,462,922
<i>Technological connection services</i>	437,010	31,201	234,852	48,067	330,144	185,220	19,138	107,864	107,590	141,759	221,046	1,003	1,864,894
<i>Sales of electricity and capacity</i>	—	—	—	—	—	—	—	—	—	530,020	—	—	530,020
<i>Other revenue</i>	402,522	45,267	189,038	64,047	48,276	131,354	40,042	107,965	61,947	59,425	122,771	262,704	1,535,358
Finance income	5,043	4,805	4,818	4,803	4,803	4,831	4,803	4,803	4,802	4,806	4,806	345	53,468
Finance costs	(404,160)	(92,274)	(258,818)	(102,479)	(128,959)	(267,243)	(147,985)	(349,019)	(288,139)	(733,545)	(423,480)	(56)	(3,196,157)
Depreciation and amortization	2,804,691	532,650	1,170,489	652,297	754,335	1,316,898	384,165	946,898	513,934	826,621	1,247,900	49,436	11,200,314
EBITDA	3,308,534	1,054,744	2,545,825	1,048,229	1,277,570	1,386,274	579,454	1,465,640	1,327,772	256,008	2,300,214	214,608	16,764,872

6 Information about segments (continued)

(a) Information about reportable segments (continued)

	Belgorod energo	Bryansk energo	Voronezh energo	Kostroma energo	Kursk energo	Lipetsk energo	Orel energo	Smolensk energo	Tambov energo	Tver energo	Yar energo	Others	Total
Segment assets	25,625,951	5,508,794	13,607,776	7,029,696	7,646,412	16,737,565	4,185,379	7,870,331	6,325,171	11,141,294	15,221,820	2,258,111	123,158,300
Including property, plant and equipment and construction in progress	23,712,163	4,695,334	11,536,025	6,104,301	6,249,496	14,208,731	3,576,415	6,659,461	4,399,114	8,886,188	11,368,806	585,582	101,981,616
Capital expenditure	2,571,535	725,250	1,585,472	890,104	611,354	1,354,167	432,443	944,969	728,161	1,392,541	1,453,890	144,291	12,834,177
Segment liabilities	3,363,191	867,126	2,341,163	1,157,611	1,226,975	1,937,688	594,907	975,695	1,046,152	2,842,432	2,077,231	45,795,418	64,225,589

6 Information about segments (continued)

(a) Information about reportable segments (continued)

As at 31 December 2017 and for the year ended 31 December 2017:

	Belgorod energo	Bryansk energo	Voronezh energo	Kostroma energo	Kursk energo	Lipetsk energo	Orel energo	Smolensk energo	Tambov energo	Tver energo	Yar energo	Others	Total
Revenue from external customers	13,969,134	5,054,830	13,044,305	5,031,860	7,179,997	8,979,999	4,433,320	7,206,321	5,916,123	10,809,790	9,399,070	90,822	91,115,571
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	2,088	393,698	395,786
Segment revenue	13,969,134	5,054,830	13,044,305	5,031,860	7,179,997	8,979,999	4,433,320	7,206,321	5,916,123	10,809,790	9,401,158	484,520	91,511,357
Including													
<i>Electricity transmission</i>	13,202,248	4,994,009	12,784,696	4,895,432	6,853,676	8,805,651	4,364,460	6,992,565	5,675,545	10,019,578	9,035,021	385,823	88,008,704
<i>Technological connection services</i>	414,868	18,629	105,676	72,608	227,485	104,630	22,455	97,580	146,880	181,852	198,573	1,579	1,592,815
<i>Sales of electricity and capacity</i>	-	-	-	-	-	-	-	-	-	548,354	-	-	548,354
<i>Other revenue</i>	352,018	42,192	153,933	63,820	98,836	69,718	46,405	116,176	93,698	60,006	167,564	97,118	1,361,484
Finance income	36,554	32,946	33,236	32,957	32,940	33,392	32,943	32,941	32,943	32,941	32,989	712	367,494
Finance costs	(514,243)	(146,752)	(324,632)	(128,054)	(226,766)	(325,412)	(198,516)	(520,537)	(382,377)	(832,682)	(446,441)	(765)	(4,047,177)
Depreciation and amortization	2,713,213	457,240	1,129,433	606,411	773,013	1,252,288	376,220	955,089	494,909	782,504	1,200,184	38,204	10,778,708
EBITDA	4,272,442	1,177,548	2,653,944	1,320,692	1,102,643	1,569,762	731,739	1,555,365	1,447,525	1,204,565	2,323,103	162,953	19,522,281

6 Information about segments (continued)

(a) Information about reportable segments (continued)

	Belgorod energo	Bryansk energo	Voronezh energo	Kostroma energo	Kursk energo	Lipetsk energo	Orel energo	Smolensk energo	Tambov energo	Tver energo	Yar energo	Others	Total
Segment assets	26,023,341	5,167,212	12,542,480	6,575,565	7,601,480	16,600,411	4,061,848	7,833,945	5,926,503	10,985,392	14,191,286	2,644,900	120,154,363
Including property, plant and equipment and construction in progress	23,886,119	4,492,707	11,125,720	5,872,914	6,354,909	14,165,537	3,523,284	6,643,501	4,137,633	8,312,812	11,148,100	419,324	100,082,560
Capital expenditure	2,649,658	694,668	1,323,247	886,258	472,678	1,422,081	465,041	968,588	588,056	716,108	1,632,692	118,610	11,937,685
Segment liabilities	3,517,372	675,166	2,267,370	960,839	1,295,638	1,744,631	544,705	1,114,210	1,041,729	2,230,648	2,202,857	44,286,526	61,881,691

6 Information about segments (continued)

(b) The reconciliation of key segment items measured as reported to the Management Group with similar items in these consolidated financial statements

The reconciliation of segment revenue:

	Year ended 31 December 2018	Year ended 31 December 2017
Segment revenues	94,393,194	91,511,357
Intersegment revenue elimination	(457,993)	(395,786)
Reclassification from other income	58	-
Revenues per consolidated statement of profit or loss and other comprehensive income	93,935,259	91,115,571

The reconciliation of reportable segment EBITDA:

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
EBITDA of reportable segments	16,764,872	19,522,281
Discounting receivables	(8,444)	18,754
Adjustment for finance lease	1,947	1,473
Impairment of property, plant and equipment	(96,886)	(939,120)
Recognition of pension and other long-term liabilities to employees	355,741	17,323
Adjustment on assets related to employee benefit liability	7,402	41,374
Re-measurement of available-for-sale investments (transfer of revaluation to equity)	-	23,235
Re-measurement of financial assets at fair value through other comprehensive income (transfer of revaluation to equity)	(1,955)	-
Adjustment of the value of property, plant and equipment	169	17,052
Adjustment of income from donated property, plant and equipment	(281,539)	(198,087)
Other adjustments	460,285	339,660
EBITDA	17,201,592	18,843,945
Depreciation and amortization	(9,909,297)	(9,399,597)
Interest expenses on financial liabilities	(3,196,157)	(4,046,748)
Interest expenses of finance lease liabilities	(683)	(662)
Income tax expense	(1,099,613)	(2,599,748)
Profit for the year per consolidated statement of profit or loss and other comprehensive income	2,995,842	2,797,190

6 Information about segments (continued)

(b) The reconciliation of key management items measured as reported to the Management Group with similar items in these consolidated financial statements (continued)

The reconciliation of reportable segment total assets is presented below:

	31 December 2018	31 December 2017 (restated)
Total segment assets	123,158,300	120,154,363
Intersegment balances	(46,885)	(20,314)
Intragroup financial assets	(16,295)	(16,295)
Adjustment for value of property, plant and equipment	(12,803,969)	(13,440,228)
Impairment of property, plant and equipment	(96,886)	(939,120)
Assets related to employee benefits	549,081	541,679
Adjustment for deferred tax assets	(1,390,413)	(1,210,598)
Discounting of accounts receivables	(85,278)	(76,834)
Adjustment of income from donated property, plant and equipment	(1,217,242)	(1,087,357)
Other adjustments	75,052	86,063
Total assets per consolidated statement of financial position	108,125,465	103,991,359

The reconciliation of reportable segment total liabilities is presented below:

	31 December 2018	31 December 2017 (restated)
Total segment liabilities	64,225,589	61,881,691
Intersegment balances	(46,885)	(20,314)
Adjustment for deferred tax liabilities	(2,741,406)	(2,833,660)
Recognition of pension and other long-term liabilities to employees	1,950,777	2,432,135
Other adjustments	(125,584)	(87,655)
Total liabilities per consolidated statement of financial position	63,262,491	61,372,197

(c) Major customer

The Group operates in the Russian Federation. The Group does not receive revenues from foreign customer and does not have non-current assets abroad.

For the year ended 31 December 2018 and 31 December 2017, the Group had a few counterparties, each of which accounted for more than 10% of the Group's total revenue. Revenue received from these counterparties is reflected in the reporting of the operating segments of Voronezhenergo, Kurskenergo, Smolenskenergo, Tverenergo and Yarenergo.

The total revenue received from PJSC "TNS energo" was RUB 17,712,342 thousand or 19% of the Group's total revenue for 2018 (2017: RUB 19,631,794 thousand or 22%). The total revenue received from JSC "Atomenergobyty" was RUB 19,619,968 thousand or 21% of the Group's total revenue for 2018 (2017: RUB 21,764,613 thousand or 24%).

7 Revenue

	Year ended 31 December 2018	Year ended 31 December 2017
Electricity transmission	90,015,407	87,622,881
Technological connection services	1,864,773	1,592,601
Sales of electricity and capacity	530,020	548,354
Other revenue	1,525,059	1,351,735
	93,935,259	91,115,571

Other revenues are comprised of repair and maintenance services, rental income and other.

Other revenue includes also revenue from performing the functions of the sole Executive body of PJSC “IDGC of Center and Volga region” for year ended 31 December 2018 in the amount of RUB 191,561 thousand (for year ended 31 December 2017: RUB 33,610 thousand).

Other revenue includes also revenue from sales of inventory in favor to PJSC “IDGC of Northern Caucasus” for the year ended 31 December 2018 in the amount of RUB 101,209 thousand (for year ended 31 December 2017: nil).

8 Net other income

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Income from identified non-contracted electricity consumption	95,009	91,342
Income in the form of fines and penalties on commercial contracts	632,397	464,812
Write-off of accounts payable	99,213	80,804
Income from compensation for losses in connection with the disposal / liquidation of power grid assets	30,508	98,706
Other income	445,493	388,517
	1,302,620	1,124,181

9 Operating expenses

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Personnel costs	19,261,323	18,847,267
Depreciation and amortization	9,909,297	9,399,597
Impairment of property, plant and equipment	96,886	939,120
<i>Material expenses, including:</i>		
Electricity for compensation of losses	15,039,054	13,666,189
Electricity for sale	465,997	473,250
Purchased electricity and heat power for own needs	408,743	382,593
Other material costs	3,207,860	2,946,444
<i>Production work and services, including:</i>		
Electricity transmission services	30,524,733	29,310,941
Repair and maintenance services	546,572	538,547
Other works and industrial services	781,020	440,174
Taxes and levies other income tax	1,903,864	1,606,231
Rent	520,383	477,983
Insurance	145,732	146,225
<i>Other third-party services, including:</i>		
Communication services	278,216	271,220
Security services	306,096	300,517
Consulting, legal and audit services	30,772	51,033
Software costs and services	325,194	352,805
Transportation services	68,374	26,152
Other services	839,865	935,241
Provision for expected credit losses/ Allowance for impairment of accounts receivable, net	536,876	(104,112)
Provisions	548,079	143,176
Debt settlement for electricity transmission, electricity for resale, purchased electricity to compensate for losses and non-contracted consumption	852,598	1,040,556
Other expenses	1,264,291	866,703
	87,861,825	83,057,852

10 Personnel costs

	Year ended 31 December 2018	Year ended 31 December 2017
Wages and salaries	12,567,674	11,893,670
Social security contributions	4,308,608	4,129,595
Provisions related to employee benefits	1,430,875	1,564,316
Expenses/(income) related to defined benefit plan	(293,012)	82,012
Other	1,247,178	1,177,674
	19,261,323	18,847,267

10 Personnel costs (continued)

The amount of contributions to the defined contribution plan was RUB 23,098 thousand for the year ended 31 December 2018 (for the year ended 31 December 2017: RUB 24,969 thousand).

Remuneration to key management personnel is disclosed in the Note 31.

11 Finance income and costs

	Year ended 31 December 2018	Year ended 31 December 2017
Finance income		
Interest income on bank deposits and balances on bank accounts	53,468	367,065
Dividends receivable	14,419	21,607
Interest income on assets related to employee defined benefits plans	-	34,883
Other finance income	57,390	18,754
	125,277	442,309
Finance costs		
Interest expenses on financial liabilities measured at amortized cost	(3,196,157)	(4,046,748)
Interest expenses on finance lease liabilities	(683)	(662)
Interest expense on long-term employee benefit liability	(165,307)	(164,773)
Other finance costs	(43,729)	(15,088)
	(3,405,876)	(4,227,271)

12 Income tax

	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Current income tax		
Accrual of current tax	(1,351,399)	(1,366,273)
Adjustment of the tax for the previous periods	236,864	(679,114)
Total	(1,114,535)	(2,045,387)
Deferred income tax		
Accrual and reversal of temporary differences	14,922	(554,361)
Total	14,922	(554,361)
Income tax expense	(1,099,613)	(2,599,748)

In 2018 and 2017, the Group recalculated and filed revised statements the income tax due to the settlement of disputes with contractors in the judicial and pre-trial order for previous periods. As a result, the profit tax accrual for previous periods was RUB 236,864 thousand in accordance with the updated tax returns submitted to the tax authorities (2017: RUB 679,114 thousand for extra charge).

Income tax recognized in other comprehensive income:

	Year ended 31 December 2018			Year ended 31 December 2017		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Available-for-sale financial assets	-	-	-	(23,235)	4,647	(18,588)
Financial assets at fair value through other comprehensive income	1,955	(391)	1,564	-	-	-
Remeasurements of the defined benefit liability	125,617	(7,731)	117,886	(246,845)	28,476	(218,369)
	127,572	(8,122)	119,450	(270,080)	33,123	(236,957)

In 2018 and 2017 PJSC “IDGC of Centre” and its subsidiaries applied the standard rate of corporate profit tax of 20%. This rate has been used in the calculation of deferred tax assets and liabilities.

The profit before taxation is correlated to income tax expenses as follows:

	Year ended 31 December 2018	%	Year ended 31 December 2017	%
Profit before income tax	4,095,455	100	5,396,938	100
Income tax calculated at the applicable tax rate	(819,091)	(20)	(1,079,388)	(20)
Tax effect of items not deductible/not taxable for taxation purposes	(517,386)	(13)	(841,246)	(16)
Adjustments for prior years	236,864	6	(679,114)	(13)
	(1,099,613)	(27)	(2,599,748)	(49)

13 Property, plant and equipment

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/deemed cost						
At 1 January 2017 (restated)	33,987,859	59,207,994	35,113,359	18,305,651	3,866,317	150,481,180
Reclassification between groups	52,311	2,409	(53,268)	(1,452)	-	-
Additions	-	13,912	404	2,629	11,936,420	11,953,365
Transfer	2,465,086	4,905,304	2,268,593	2,247,375	(11,886,358)	-
Disposals	(21,211)	(23,992)	(41,201)	(132,785)	(25,519)	(244,708)
At 31 December 2017 (restated)	36,484,045	64,105,627	37,287,887	20,421,418	3,890,860	162,189,837
Accumulated depreciation and impairment						
At 1 January 2017 (restated)	(11,580,362)	(29,848,533)	(14,010,038)	(12,189,662)	(185,492)	(67,814,087)
Reclassification between groups	(591)	(6)	562	35	-	-
Transfer to property, plant and equipment (transfer of impairment losses)	(3,352)	(2,625)	(2,721)	(270)	8,968	-
Depreciation charge	(1,494,021)	(3,694,430)	(2,011,547)	(1,798,912)	-	(8,998,910)
Disposals	9,033	19,753	37,719	128,999	708	196,212
(Impairment)/reversal of impairment	(1,361,245)	726,199	(338,807)	56,641	(21,908)	(939,120)
At 31 December 2017 (restated)	(14,430,538)	(32,799,642)	(16,324,832)	(13,803,169)	(197,724)	(77,555,905)
Net book value						
At 1 January 2017 (restated)	22,407,497	29,359,461	21,103,321	6,115,989	3,680,825	82,667,093
At 31 December 2017 (restated)	22,053,507	31,305,985	20,963,055	6,618,249	3,693,136	84,633,932

13 Property, plant and equipment (continued)

Cost/deemed cost	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction progress	Total
At 1 January 2018 (restated)	36,484,045	64,105,627	37,287,887	20,421,418	3,890,860	162,189,837
Reclassification between groups	246	63	(309)	-	-	-
Additions	8	13,233	787	2,715	12,814,730	12,831,473
Transfer	1,796,985	4,892,157	2,271,369	3,844,348	(12,804,859)	-
Disposals	(7,246)	(22,885)	(31,855)	(180,454)	(33,296)	(275,736)
At 31 December 2018	38,274,038	68,988,195	39,527,879	24,088,027	3,867,435	174,745,574
Accumulated depreciation and impairment						
At 1 January 2018 (restated)	(14,430,538)	(32,799,642)	(16,324,832)	(13,803,169)	(197,724)	(77,555,905)
Reclassification between groups	(70)	(1)	71	-	-	-
Transfer to property, plant and equipment (transfer of impairment losses)	(19,913)	(15,634)	(76,658)	(6,314)	118,519	-
Depreciation charge	(1,562,144)	(3,998,058)	(2,067,720)	(1,819,820)	-	(9,447,742)
Disposals	4,842	15,286	19,448	175,607	79	215,262
(Impairment)/reversal of impairment	6,630	(59,207)	(26,290)	(8,526)	(9,493)	(96,886)
At 31 December 2018	(16,001,193)	(36,857,256)	(18,475,981)	(15,462,222)	(88,619)	(86,885,271)
Net book value						
At 1 January 2018 (restated)	22,053,507	31,305,985	20,963,055	6,618,249	3,693,136	84,633,932
At 31 December 2018	22,272,845	32,130,939	21,051,898	8,625,805	3,778,816	87,860,303

13 Property, plant and equipment (continued)

As at 31 December 2018 advance payments for property, plant and equipment include in construction in progress in the amount of RUB 174,637 thousand (as at 31 December 2017: RUB 33,841 thousand), also materials for the construction of property, plant and equipment in the amount RUB of 579,422 thousand (as at 31 December 2017: RUB 517,949 thousand).

For the year ended 31 December 2018 capitalized interest amount is RUB 187,985 thousand (for the year ended 31 December 2017: RUB 236,906 thousand), the capitalization rate used to determine the amount of borrowing costs to be capitalized was 8.07-9.42% during the year (for the year ended 31 December 2017 – 8.10-10.40%).

Depreciation charges were capitalized in the value of capital construction in the amount of RUB 39,827 thousand for the year ended 31 December 2017 (2017: RUB 31,872 thousand).

No fixed assets are pledged as collateral for loans and borrowings as at 31 December 2018 and 31 December 2017.

Leased property, plant and equipment

Property, plant and equipment includes a number of facilities received under finance lease. The residual value of leased property, plant and equipment was RUB 2,884 thousand as at 31 December 2018 (as at 31 December 2017: RUB 3,728 thousand).

Impairment of property, plant and equipment

As the indicators of impairment were revealed, the Group performed an impairment test of the non-current assets as at 31 December 2018. For this purposes, cash flows were analyzed and the calculated replacement cost was compared to the carrying amount of non-current assets.

The majority of the Group's property, plant and equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value.

Therefore, the values in use for property, plant and equipment as at 31 December 2018 and as at 31 December 2017 were determined using projected cash flows method. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets of the Group.

Each cash-generating unit (CGU) is determined by the Group based on the geographical location of the Company's branches and subsidiaries which is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other groups of assets.

The following key assumptions were used in determining the recoverable amounts of each of the cash-generating units:

- forecast cash flows were prepared for the period 2019-2023 for all the CGUs and were based on the best estimate of the Group's Management in respect of the transmission volumes, operating and capital expenditures and tariffs approved by regulatory bodies for 2019;
- tariffs for electricity transmission services for forecasted period (after 2019) were estimated using business plans, which were based on the tariff models prepared taking into account annual average growth of tariffs for electricity transmission services in accordance with "The socio-economic development of the Russian Federation for 2019 and the planning period of 2020-2021"). Tariffs growth rates in 2019-2023 are restricted by inflation rates according to Ministry of Economic Development of the Russian at the rate of 4%;
- forecasted electricity transmission volumes for all CGUs were determined based on the Company's business plans for 2019-2023;
- Long-term growth rate amounted to 4.00% for all CGUs in the post-forecasted period.

13 Property, plant and equipment (continued)

In accordance with the current forecasts of the Company:

- The estimated NVB for 2019 will be RUB 92,555 million with the subsequent increase in 2020 by 2.5%, in 2021 by 3.2%, in 2022 by 4.3%, in 2023 by 4.2%;
- Operating expenses in 2019 will amount to RUB 84,611 million with the subsequent increase in 2020 by 2.2%, in 2021 by 1.9%, in 2022 by 2.7%, in 2023 by 2.9%;
- Capital expenditures in 2019 will amount to RUB 15,652 million with a subsequent increase in 2020 by 0.1%, in 2021 by -2.4%, in 2022 by +0.3%, in 2023 without growth.

The cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 10.00% (2017: 10.25%).

An impairment loss on "Lipetskenergo" in the amount of RUB 218,107 thousand was recognized as a result of testing as at 31 December 2018 and reversal of previously recognized impairment loss on "Belgorodenergo" in the amount of RUB 121,221 thousand.

The main factor in the reversal of impairment in Belgorodenergo was increase in cash flow during the forecast period, due to the conclusion of a regulatory agreement with the administration of the Belgorod Region regarding the growth rate of the single (boiler) tariff for electricity transmission services and the projected decrease in electricity losses within the digital transformation project.

Branch	Balance of impairment 31.12.2017	Depreciation and disposal for the period 2018	Accrued impairment in 2018	Reversal impairment in 2018	Balance of impairment 31.12.2018
Belgorodenergo	6,231,402	(637,719)	-	(121,221)	5,472,462
Lipetskenergo	1,685,259	(162,098)	218,107	-	1,741,268
	7,916,661	(799,817)	218,107	(121,221)	7,213,730

The sensitivity of the recoverable amount of fixed assets to changes in the main assumptions in calculation is presented below:

Table 1 The sensitivity of the value of the use of fixed assets of the generating unit branch "Belgorodenergo"

Name	Increase, %	Decrease, %
Change the discount rate by 0.25%	-3.52	3.82
Change NVV to the base value in each period by 3%	25.58	-25.58
Change in the growth rate of net cash flow in the post-forecast period by 1%	15.31	-10.93
Change in the level of operating expenses by 5%	-37.54	34.58
Change in the level of investment (capital investment) by 10%	-3.70	3.70
Change in net output in each period by 0.5%	4.26	-4.26

Table 2 The sensitivity of the value of the use of fixed assets of the generating unit branch "Bryanskenergo"

Name	Increase, %	Decrease, %
Change the discount rate by 0.25%	-4.18	4.54
Change NVV to the base value in each period by 3%	7.56	-7.56
Change in the growth rate of net cash flow in the post-forecast period by 1%	16.66	-11.90
Change in the level of operating expenses by 5%	-7.13	7.13
Change in the level of investment (capital investment) by 10%	-2.36	2.36
Change in net output in each period by 0.5%	1.26	-1.26

Table 3 The sensitivity of the value of the use of fixed assets of the generating unit branch "Voronezhenergo"

Name	Increase, %	Decrease, %
Change the discount rate by 0.25%	-4.08	4.44
Change NVV to the base value in each period by 3%	3.96	-4.93
Change in the growth rate of net cash flow in the post-forecast period by 1%	17.37	-12.41
Change in the level of operating expenses by 5%	-3.45	0.96
Change in the level of investment (capital investment) by 10%	-3.46	3.46
Change in net output in each period by 0.5%	0.66	-0.66

13 Property, plant and equipment (continued)

Table 4 The sensitivity of the value of the use of fixed assets of the generating unit branch "Kostromaenergo"

Name	Increase, %	Decrease, %
Change the discount rate by 0.25%	-3.74	4.06
Change NVV to the base value in each period by 3%	4.38	-4.46
Change in the growth rate of net cash flow in the post-forecast period by 1%	14.87	-10.62
Change in the level of operating expenses by 5%	-3.14	1.84
Change in the level of investment (capital investment) by 10%	-3.40	3.40
Change in net output in each period by 0.5%	0.73	-0.73

Table 5 The sensitivity of the value of the use of fixed assets of the generating unit branch "Kurskenenergo"

Name	Increase, %	Decrease, %
Change the discount rate by 0.25%	-4.56	4.96
Change NVV to the base value in each period by 3%	7.60	-24.31
Change in the growth rate of net cash flow in the post-forecast period by 1%	17.82	-12.73
Change in the level of operating expenses by 5%	-34.21	5.58
Change in the level of investment (capital investment) by 10%	-3.53	3.53
Change in net output in each period by 0.5%	1.42	-3.24

Table 6 The sensitivity of the value of the use of fixed assets of the generating unit branch "Lipetskenenergo"

Name	Increase, %	Decrease, %
Change the discount rate by 0.25%	-4.06	4.40
Change NVV to the base value in each period by 3%	21.66	-27.52
Change in the growth rate of net cash flow in the post-forecast period by 1%	16.06	-11.47
Change in the level of operating expenses by 5%	-39.66	22.04
Change in the level of investment (capital investment) by 10%	-3.59	3.59
Change in net output in each period by 0.5%	4.55	-4.55

Table 7 The sensitivity of the value of the use of fixed assets of the generating unit branch "Orelenergo"

Name	Increase, %	Decrease, %
Change the discount rate by 0.25%	-3.87	4.20
Change NVV to the base value in each period by 3%	10.69	-20.67
Change in the growth rate of net cash flow in the post-forecast period by 1%	16.05	-11.47
Change in the level of operating expenses by 5%	-28.80	10.62
Change in the level of investment (capital investment) by 10%	-1.32	1.32
Change in net output in each period by 0.5%	3.45	-3.45

Table 8 The sensitivity of the value of the use of fixed assets of the generating unit branch "Smolenskenergo"

Name	Increase, %	Decrease, %
Change the discount rate by 0.25%	-3.71	4.03
Change NVV to the base value in each period by 3%	6.22	-15.63
Change in the growth rate of net cash flow in the post-forecast period by 1%	14.39	-10.28
Change in the level of operating expenses by 5%	-23.03	4.66
Change in the level of investment (capital investment) by 10%	-1.48	1.48
Change in net output in each period by 0.5%	1.19	-1.19

Table 9 The sensitivity of the value of the use of fixed assets of the generating unit branch "Tambovenergo"

Name	Increase, %	Decrease, %
Change the discount rate by 0.25%	-4.29	4.66
Change NVV to the base value in each period by 3%	16.86	-16.86
Change in the growth rate of net cash flow in the post-forecast period by 1%	17.43	-12.45
Change in the level of operating expenses by 5%	-21.93	21.93
Change in the level of investment (capital investment) by 10%	-1.68	1.68
Change in net output in each period by 0.5%	2.81	-2.81

Table 10 The sensitivity of the value of the use of fixed assets of the generating unit branch "Tverenergo"

Name	Increase, %	Decrease, %
Change the discount rate by 0.25%	-3.68	3.99
Change NVV to the base value in each period by 3%	26.22	-26.22
Change in the growth rate of net cash flow in the post-forecast period by 1%	14.62	-10.44
Change in the level of operating expenses by 5%	-38.40	36.20
Change in the level of investment (capital investment) by 10%	-1.73	1.73
Change in net output in each period by 0.5%	4.37	-4.37

13 Property, plant and equipment (continued)

Table 11 *The sensitivity of the value of the use of fixed assets of the generating unit branch "Yarenergo"*

Name	Increase, %	Decrease, %
Change the discount rate by 0.25%	-3.79	4.11
Change NVV to the base value in each period by 3%	22.33	-22.33
Change in the growth rate of net cash flow in the post-forecast period by 1%	13.64	-9.74
Change in the level of operating expenses by 5%	-31.29	31.29
Change in the level of investment (capital investment) by 10%	-1.62	1.62
Change in net output in each period by 0.5%	3.72	-3.72

Table 12 *Sensitivity of the value of use of fixed assets of IDGC of Center, PJSC (on average across all branches)*

Name	Increase, %	Decrease, %
Change the discount rate by 0.25%	-3.95	4.29
Change NVV to the base value in each period by 3%	13.91	-17.82
Change in the growth rate of net cash flow in the post-forecast period by 1%	15.84	-11.31
Change in the level of operating expenses by 5%	-24.42	16.08
Change in the level of investment (capital investment) by 10%	-2.54	2.54
Change in net output in each period by 0.5%	2.58	-2.75

The sensitivity analysis according to the material assumptions, on the basis of which the impairment models are constructed for the CGU PGC "IDGC of Center" as at 31 December 2018, is presented below:

- **increase the discount rate to 11%:**
 - leads to an impairment loss on Belgorodenergo in the amount of RUB 2,255,758 thousand;
 - leads to an impairment loss on Lipetskenergo in the amount of RUB 1,778,683 thousand;
- **reduction of the required gross revenue to the base value in each period by 3%:**
 - leads to the impairment loss on Belgorodenergo in the amount of RUB 4,704,069 thousand;
 - leads to an impairment loss on Lipetskenergo in the amount of RUB 3,174,851 thousand;
 - leads to an impairment loss on Yarenergo in the amount of RUB 383,721 thousand;
- **increase in the level of operating expenses to the base value in each period by 5%:**
 - leads to an impairment loss on Belgorodenergo in the amount of RUB 6,961,345 thousand;
 - leads to an impairment loss on Lipetskenergo in the amount of RUB 4,478,207 thousand;
 - leads to an impairment loss on Yarenergo in the amount of RUB 1,622,543 thousand;
- **an increase in the level of capital investments in the forecast and post-forecast period by 10%:**
 - leads to the impairment loss on Belgorodenergo in the amount of RUB 577,628 thousand;
 - leads to an impairment loss on Lipetskenergo in the amount of RUB 603,454 thousand;
- **decrease in the growth rate of net cash flow in the post-forecast period by 1%:**
 - leads to the impairment loss on Belgorodenergo in the amount of RUB 1,941,273 thousand;
 - leads to an impairment loss on Lipetskenergo in the amount of RUB 1,450,283 thousand;
- **0.5% reduction in net output in each period:**
 - leads to the impairment loss on Belgorodenergo in the amount of RUB 683,035 thousand;
 - leads to an impairment loss on Lipetskenergo in the amount of RUB 706,613 thousand;

14 Intangible assets

	Software	R&D	Other intangible assets	Total
Initial cost				
At 1 January 2017	1,465,512	29,947	1,218,251	2,713,710
Reclassification between groups	-	(52,701)	52,701	-
Additions	423,109	46,658	329	470,096
Disposals	(185,069)	(2,649)	-	(187,718)
At 31 December 2017	1,703,552	21,255	1,271,281	2,996,088
At 1 January 2018	1,703,552	21,255	1,271,281	2,996,088
Reclassification between groups	-	(36,127)	36,127	-
Additions	852,403	53,101	2,815	908,319
Disposals	(219,889)	(2,713)	-	(222,602)
At 31 December 2018	2,336,066	35,516	1,310,223	3,681,805
Accumulated amortization and impairment				
At 1 January 2017	(274,588)	-	(93,840)	(368,428)
Amortization charge	(358,006)	-	(74,553)	(432,559)
Disposals	185,069	-	-	185,069
At 31 December 2017	(447,525)	-	(168,393)	(615,918)
At 1 January 2018	(447,525)	-	(168,393)	(615,918)
Amortization charge	(428,093)	-	(73,289)	(501,382)
Disposals	219,889	-	-	219,889
At 31 December 2018	(655,729)	-	(241,682)	(897,411)
Net book value				
At January 2017	1,190,924	29,947	1,124,411	2,345,282
At 31 December 2017	1,256,027	21,255	1,102,888	2,380,170
At 31 December 2018	1,680,337	35,516	1,068,541	2,784,394

Amortization of intangible assets included in operating expenses in consolidated statement of profit or loss and other comprehensive income is RUB 501,382 thousand (for the year ended 31 December 2017: RUB 432,559 thousand).

Capitalized interest is absent for the year ended 31 December 2018 and 31 December 2017.

Other intangible assets include objects of intellectual property, R&D results and objects of Service Concession Arrangement.

14 Intangible assets (continued)

In 2015 and in 2016, the intangible assets of the Group (subgroup “Other intangible assets”) include a right to charge fee from users of services on electricity transmission in accordance with “Service Concession Arrangement concerning the financing, establishment and operation of facilities for the transmission and distribution of electric energy on the territory of the Tambov region”. This agreement provides for the construction by a Group of objects for the purposes of transmission and distribution of electricity in the Tambov region and the provision of transmission services, electricity distribution and connection services with the use of objects of the Service Concession Arrangement. Ownership of the constructed objects belongs to the Tambov region, and the Group receives the right of possession and use of objects for the Group activities. The Service Concession Arrangement is concluded in 2015 for 20 years.

During the Concession Agreement, the Administration of the Tambov Region may grant subsidies to the Group, both in respect of payment of remuneration for construction, and in respect of compensation for lost revenue from electricity transmission. In 2018, the Group received a subsidy in part of the payment of remuneration for construction in the amount of RUB 50,847 thousand, excluding VAT, which is recognized in the other income (2017: RUB 50,847 thousand, excluding VAT).

The net book value of the objects of the Concession Agreement as at 31 December 2018 is RUB 933,203 thousand recognized in the line “Intangible assets” of the Consolidated Statement of Financial position. (31 December 2017: RUB 988,066 thousand). Amortization for the objects of the Concession Agreement is RUB 54,863 thousand for 2018 (for 2017: RUB 54,863 thousand).

15 Financial investments

	<u>31 December 2018</u>	<u>31 December 2017</u>
Available-for-sale financial assets	-	189,945
Financial assets at fair value through other comprehensive income	191,900	-
	<u>191,900</u>	<u>189,945</u>

Available-for-sale financial assets and financial assets at fair value through other comprehensive income include shares of PJSC “Unipro”, PJSC “IDGC of Center and Volga region”, PJSC “FGC UES”, fair value is RUB 191,900 thousand as at 31 December 2018 (as at 31 December 2017 RUB 189,945 thousand). The fair value of these investments is estimated using market quotations (level 1 inputs) at the end of each reporting period.

16 Deferred tax assets and liabilities

Differences between IFRS and Russian tax legislation lead to temporary differences between the carrying value of certain assets and liabilities for financial reporting targets, on the one hand, and for tax targets on income tax, on the other.

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	31 December 2018	31 December 2017 (restated)	31 December 2018	31 December 2017 (restated)	31 December 2018	31 December 2017 (restated)
Property, plant and equipment	-	-	(6,244,062)	(6,224,263)	(6,244,062)	(6,224,263)
Intangible assets	-	-	(25,823)	(26,456)	(25,823)	(26,456)
Assets related to employee defined benefits plans	-	-	(109,816)	(108,336)	(109,816)	(108,336)
Trade and other receivables and prepayments	784,690	663,049	-	-	784,690	663,049
Loan and borrowings	-	-	(3,646)	(2,531)	(3,646)	(2,531)
Provisions	162,586	97,549	-	-	162,586	97,549
Employee benefits	182,016	238,366	-	-	182,016	238,366
Trade and other payables	168,614	224,255	-	-	168,614	224,255
Other	2,696	1,992	(46,536)	294	(43,840)	2,286
Net tax assets/(liabilities)	1,300,602	1,225,211	(6,429,883)	(6,361,292)	(5,129,281)	(5,136,081)

(b) Movement in temporary differences during the year

	1 January 2018 (restated)	Recognized in profit and loss	Recognized in other comprehensive income	31 December 2018
Property, plant and equipment	(6,224,263)	(19,799)	-	(6,244,062)
Intangible assets	(26,456)	633	-	(25,823)
Assets related to employee defined benefits plans	(108,336)	(1,480)	-	(109,816)
Financial assets at fair value through other comprehensive income	-	391	(391)	-
Trade and other receivables and prepayments	663,049	121,641	-	784,690
Loans and borrowings	(2,531)	(1,115)	-	(3,646)
Provisions	97,549	65,037	-	162,586
Employee benefits	238,366	(48,619)	(7,731)	182,016
Trade and other payables	224,255	(55,641)	-	168,614
Other	2,286	(46,126)	-	(43,840)
	(5,136,081)	14,922	(8,122)	(5,129,281)

16 Deferred tax assets and liabilities (continued)

	1 January 2017 (restated)	Recognized in profit and loss	Recognized in other comprehensive income	31 December 2017 (restated)
Property, plant and equipment	(6,036,066)	(188,197)	-	(6,224,263)
Intangible assets	(27,088)	632	-	(26,456)
Assets related to employee defined benefits plans	(100,061)	(8,275)	-	(108,336)
Available-for-sale financial assets	-	(4,647)	4,647	-
Trade and other receivables and prepayments	961,720	(298,671)	-	663,049
Loans and borrowings	(4,462)	1,931	-	(2,531)
Provisions	205,241	(107,692)	-	97,549
Employee benefits	221,449	(11,559)	28,476	238,366
Trade and other payables	162,931	61,324	-	224,255
Other	1,493	793	-	2,286
	(4,614,843)	(554,361)	33,123	(5,136,081)

17 Inventories

	31 December 2018	31 December 2017
Raw materials and supplies	1,484,993	1,194,570
Allowance for impairment of raw materials and supplies	(161)	(192)
Other inventories	1,250,611	934,608
	2,735,443	2,128,986

The Group had no reserves that would have been pledged under credit or other contracts as at 31 December 2018 and 31 December 2017. The Group has included spare parts, fuel and work in progress in other inventories.

18 Trade and other receivables

	31 December 2018	31 December 2017
Non-current trade and other account receivable		
Trade receivables	417,928	907,221
Other receivables	157,521	127,061
Total financial assets	575,449	1,034,282
Advances given	9,813	3,276
Total trade and other receivables	585,262	1,037,558
Current trade and other account receivable		
Trade receivables	22,752,087	21,754,731
Allowance for expected credit losses on trade receivables	(11,549,586)	(11,479,271)
Other receivables	1,454,604	1,550,815
Allowance for expected credit losses on other receivables	(974,448)	(1,144,280)
Loans given	-	161,600
Allowance for expected credit losses on loans given	-	(161,600)
Total financial assets	11,682,657	10,681,995
Advances given	176,447	145,094
Advance given impairment allowance	(15,165)	(16,452)
VAT recoverable	9,950	9,730
VAT on advances from customers and clients and advances given for the purchase of property, plant and equipment	373,413	452,533
Prepaid taxes, other than income tax and VAT	25,371	22,173
Total trade and other receivables	12,252,673	11,295,073

The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in Note 27.

Balance with related parties is disclosed in Note 31.

19 Cash and cash equivalents

	31 December 2018	31 December 2017
Cash in bank accounts and cash on hand	787,053	1,362,307
	787,053	1,362,307

	Rating	Rating agency	31 December 2018	31 December 2017
PJSC «Sberbank of Russia»*	Baa3	Moody's	37,782	139,529
JSC «Bank GPB»*	Ba1	Moody's	34,204	262
PJSC «VTB bank»*	Baa3	Moody's	684,040	234,920
JSC «Alfa-Bank»	Ba1	Moody's	49	-
JSC «AB Russia»	ruAA	Expert RA	58	961,038
PJSC «Promsvyazbank»	B2	Moody's	29	60
PJSC «Rosbank»	Ba1	Moody's	30,719	26,374
JSC «SMP bank»	ruA-	Expert RA	-	91
PJSC «Sovcombank»	Ba3	Moody's	-	1
Cash on hand			172	32
			787,053	1,362,307

* State-controlled banks

All balance of cash and cash equivalents are denominated in rubles as at 31 December 2018 and 31 December 2017.

As at 31 December 2018, the balance on the current account with JSC «AB Russia» represents cash in the form of a non-reducible balance is absent (2017: RUB 961,000 thousand at 6.75-7.00% per annum).

20 Equity

	Ordinary shares	
	31 December 2018	31 December 2017
Par value	0.10	0.10
On issue at 1 January	42,217,941,468	42,217,941,468
On issue at end of year, fully paid	42,217,941,468	42,217,941,468

Dividends

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

At the annual general meeting of shareholders held on 8 June 2017 dividends for 2016 were declared in the amount of RUB 1,866,675 thousand. The amount of dividends was RUB 0.0442 per one ordinary share.

At the annual general meeting of shareholders held on 31 May 2018 dividends for 2017 were declared in the amount of RUB 879,028 thousand. The amount of dividends was RUB 0.0208 per one ordinary share.

In 2018, The Company recovered unclaimed dividends for 2014 in the amount of RUB 7,548 thousand (in 2017 – the amount of RUB 737 thousand for 2013).

21 Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2018 was based on the earnings attributable to ordinary shareholders for 2018 in the amount of RUB 2,935,245 thousand (for 2017: earnings of RUB 2,753,147 thousand), and a weighted average number of ordinary shares outstanding of 42,218 million in 2018 (for 2017: 42,218 million).

The Company has no dilutive financial instruments.

In millions of shares

	2018	2017
Ordinary shares at 1 January	42,218	42,218
Weighted average number of shares for the year ended 31 December	42,218	42,218
	Year ended 31 December 2018	Year ended 31 December 2017 (restated)
Weighted average number of ordinary shares outstanding, for the year ended 31 December (millions of shares)	42,218	42,218
Earnings for the year attributable to holders of ordinary shares	2,935,245	2,753,147
Earnings per ordinary share (in RUB) – basic and diluted	0.070	0.065

22 Loans and borrowings

	<u>31 December 2018</u>	<u>31 December 2017</u>
Non-current liabilities		
Unsecured loans and borrowings	25,098,458	26,213,131
Unsecured bonds	15,290,522	15,265,247
Finance lease liabilities	-	695
Less: current portion of long-term loans and borrowings	(1,013,458)	(2,213,131)
Less: current portion of long-term bonds	(10,298,596)	(5,276,732)
	<u>29,076,926</u>	<u>33,989,210</u>
Current liabilities		
Finance lease liabilities	696	1,593
Current portion of long-term loans and borrowings	1,013,458	2,213,131
Current portion of long-term bonds	10,298,596	5,276,732
	<u>11,312,750</u>	<u>7,491,456</u>
Including:		
Debts on interest payable on loans and borrowings	13,458	13,131
Debts on interest payable on bonds	308,750	277,900
	<u>322,208</u>	<u>291,031</u>

All balance of loans and borrowings are denominated in rubles as at 31 December 2018 and 31 December 2017.

22 Loans and borrowings (continued)

	Year of maturity	Effective interest rate		Carrying value	
		31.12.2018	31.12.2017	31 December 2018	31 December 2017
Unsecured loans and borrowings					
Unsecured loans*	2021 – 2021	7.49% - 9.80%	8.10% - 8.40%	5,585,000	9,700,000
Unsecured loans*	2019 – 2021	7.40% - 7.49%	8.19% - 8.19%	14,508,889	13,509,087
Unsecured loans*	2020 – 2021	7.60% - 7.60%	8.20% - 8.20%	3,003,748	3,004,044
Unsecured loans	2020 – 2020	7.49% - 7.49%	0.00% - 0.00%	2,000,821	-
				25,098,458	26,213,131
Unsecured bonds					
Unsecured bonds	2019 – 2021	6.95% - 11.58%	9.32% - 12.42%	15,290,522	15,265,247
				15,290,522	15,265,247
Finance lease liability					
Finance lease liability	2019 – 2019	42.31% - 42.31%	42.31% - 42.31%	696	2,288
				696	2,288

*Loans and borrowings received from companies related to the state

All balances of loans and borrowings are denominated in rubles as at 31 December 2018 and 31 December 2017.

The Group does not use hedging instruments to manage interest rate risk. Information on the Group's exposure to interest rate risk is disclosed in Note 27.

A breakdown of the minimum lease payments under finance leases and their discounted value are disclosed below:

	31 December 2018			31 December 2017		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	758	62	696	2,276	683	1,593
Between one and five years	-	-	-	757	62	695
	758	62	696	3,033	745	2,288

Leased assets secure the financial lease liabilities.

23 Changes in liabilities arising from financial activities

	The principal amount of debt on financial liabilities, other than finance leases and dividends payable			Interest on financial liabilities, other than finance leases and dividends payable	Finance lease	Dividends payable	Total
	Total	Long-term part	Short-term part				
At 1 January 2018	41,187,347	33,988,515	7,198,832	291,031	2,288	39,896	41,520,562
Cash flow from financing activities, net	(1,125,427)	6,074,573	(7,200,000)	-	(1,592)	(868,222)	(1,995,241)
Cash flow by interest paid (operating activities, reference)	-	-	-	(3,352,965)	(683)	-	(3,353,648)
Discounting, net	4,852	2,353	2,499	-	-	-	4,852
Accrual of interest and dividends payable	-	-	-	3,196,157	683	879,028	4,075,868
Capitalization of interest	-	-	-	187,985	-	-	187,985
Translation from long-term part to short-term part	-	(10,988,515)	10,988,515	-	-	-	-
Other changes, net	-	-	-	-	-	(7,548)	(7,548)
At 31 December 2018	40,066,772	29,076,926	10,989,846	322,208	696	43,154	40,432,830

23 Changes in liabilities arising from financial activities (continued)

	The principal amount of debt on financial liabilities, other than finance leases and dividends payable			Interest on financial liabilities, other than finance leases and dividends payable	Finance lease	Dividends payable	Total
	Total	Long-term part	Short-term part				
At 1 January 2017	42,930,792	39,282,692	3,648,100	347,695	-	15,971	43,294,458
Cash flow from financing activities, net	(1,753,100)	1,895,000	(3,648,100)	-	(1,932)	(1,853,130)	(3,608,162)
Cash flow by interest paid (operating activities, reference)	-	-	-	(4,340,318)	(662)	-	(4,340,980)
Income from finance lease	-	-	-	-	4,220	-	4,220
Discounting, net	9,655	9,655	-	-	-	-	9,655
Accrual of interest and dividends payable	-	-	-	4,046,748	662	1,877,792	5,925,202
Capitalization of interest	-	-	-	236,906	-	-	236,906
Translation from long-term part to short-term part	-	(7,198,832)	7,198,832	-	-	-	-
Other changes, net	-	-	-	-	-	(737)	(737)
At 31 December 2017	41,187,347	33,988,515	7,198,832	291,031	2,288	39,896	41,520,562

24 Employee benefits

The Group has a defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of several unfunded plans providing for lump-sum payments upon retirement, financial support for current pensioners, death benefits and anniversary benefits.

On 3 October 2018 the President on the Russian Federation signed the Federal Law “On amendments to certain legislative acts of the Russian Federation on the payment and purpose of pensions”. The law comes into force on 1 January 2019 and provides for a gradual increase in the retirement age. The net value of pension obligations as of 31 December 2018 is reflected in the light of the impact of changes in pension legislation.

Amounts of defined benefit obligations recognized in the consolidated statement of financial position are presented below:

	31 December 2018	31 December 2017
Present value of post-employment benefits obligation	1,950,777	2,432,135
Total present value of employee benefit obligation	1,950,777	2,432,135

Change in the value of assets related to employee benefit obligations:

	Year ended 31 December 2018	Year ended 31 December 2017
Value of assets at 1 January	541,679	500,305
Return on plan assets	-	34,883
Employer contributions	164,363	207,803
Other movements in the accounts	(16,784)	(18,515)
Payments of remuneration	(140,177)	(182,797)
Value of assets at 31 December	549,081	541,679

Assets related to pension plans and defined benefit plans are administrated by non-state pension funds JSC “NPF “Otkrytie”.

These assets are not the defined benefit plans assets, because according to the conditions of the fund the Group has right to use the contributions paid under defined benefit plans to fund its defined contribution pension plans or transfer to another fund on the Group’s own initiative.

24 Employee benefits (continued)

Movements in the present value of defined benefit liabilities:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Post-employment benefits obligation	Other long-term employee benefit obligation	Post-employment benefits obligation	Other long-term employee benefit obligation
Defined benefit plan obligations as at 1 January	2,432,135	-	2,202,613	-
Current service cost	64,312	-	82,012	-
Past service cost and sequestration	(357,324)	-	-	-
Interest expense	165,307	-	164,773	-
Remeasurement effect from:				
- (gain)/loss from change in demographic actuarial assumptions	45,898	-	(67,040)	-
- (gain)/loss from change in financial actuarial assumptions	(335,660)	-	252,713	-
- (gain)/loss arising from experience adjustment	164,145	-	61,172	-
Contributions to the plan	(228,036)	-	(264,108)	-
Defined benefit plan obligations as at 31 December	1,950,777	-	2,432,135	-

(Income)/expenses recognized in profit or loss for the period:

	Year ended 31 December 2018	Year ended 31 December 2017
Employees service cost	(293,012)	82,012
Interest expenses	165,307	164,773
Total expenses recognized in profit or loss	(127,705)	246,785

(Income)/costs recognized in other comprehensive income for the period:

	Year ended 31 December 2018	Year ended 31 December 2017
(Gain)/loss from change in demographic actuarial assumptions	45,898	(67,040)
(Gain)/loss from change in financial actuarial assumptions	(335,660)	252,713
(Gain)/loss arising from experience adjustment	164,145	61,172
Total (gain)/loss recognized in other comprehensive income	(125,617)	246,845

24 Employee benefits (continued)

Movements in allowance for remeasurement of employee benefit obligations in other comprehensive income during the year:

	Year ended 31 December 2018	Year ended 31 December 2017
Remeasurements at 1 January	496,575	249,730
Movement of remeasurements	(125,617)	246,845
Remeasurements at 31 December	370,958	496,575

The key actuarial assumptions are as follows:

	31 December 2018	31 December 2017
Financial assumptions		
Discount rate	8.70%	7.50%
Future salary increase	4.10%	4.50%
Inflation rate	4.60%	4.00%
Demographic assumptions		
Expected age of retirement		
• Men	60-65	60
• Women	59-64	57
Average level of staff movement	5.90%	5.30%

A sensitivity of total employee benefits obligations to changes in the key actuarial assumptions is as follows:

	Change in the assumption	Impact on obligation
Discount rate	Increase by 0.50%	Increase/decrease by -6.6%
Future salary growth	Increase by 0.50%	Increase/decrease by 5.4%
Future growth of benefits (inflatons)	Increase by 0.50%	Increase/decrease by 1.7%
Level of staff movement	Increase by 10%	Increase/decrease by -2.3%
Mortality level	Increase by 10%	Increase/decrease by -1.8%

	31 December 2018	31 December 2017
Cost of employee benefit commitments	(1,950,777)	(2,432,135)
Asset value	549,081	541,679
Net value	(1,401,696)	(1,890,456)

Expected payments under the defined long-term employee benefit plans to employees in 2019 year are RUB 272,325 thousand, including:

RUB 272,325 thousand under the defined benefit plans, including non-state pension schemes.

25 Trade and other payables

	31 December 2018	31 December 2017
Non-current accounts payable		
Trade payables	8,729	17,724
Other payables	81,675	30,300
Total financial liabilities	90,404	48,024
Advance from customers	618,436	875,331
	708,840	923,355
Current accounts payable		
Trade payables	6,035,790	4,575,346
Other payables and accrued expenses	3,054,427	390,668
Payables to employees	1,463,903	1,777,592
Dividends payable	43,154	39,896
Total financial liabilities	10,597,274	6,783,502
Advance from customers	1,626,437	2,057,797
	12,223,711	8,841,299
Taxes payable		
Value-added tax	1,017,695	1,086,645
Property tax	441,310	365,766
Social security contributions	433,439	376,148
Other taxes payable	150,702	158,362
	2,043,146	1,986,921
	14,266,857	10,828,220

The Group's exposure to liquidity risk related to payables is disclosed in Note 27.

Long-term advances of customers include advance for service of technological connection to electric grids in the amount RUB 541,567 thousand as at 31 December 2018 (as at 31 December 2017: RUB 636,003 thousand).

26 Provisions

	Year ended 31 December 2018	Year ended 31 December 2017
Balance at 1 January	487,743	1,026,203
Increase for the period	839,806	511,173
Decrease due to reversal of provisions	(291,727)	(367,998)
Provisions used	(222,891)	(681,635)
Balance at 31 December	812,931	487,743

Provisions relate mainly to legal proceedings and claims against the Group on ordinary activities.

In the course of its operations, the Group is a party to legal proceedings. For unfinished legal proceedings, where the Group acts as a defendant with a low probability of resolution in favor of the Group, an allowance reserve for legal proceedings has been established. The estimated timeframe for the fulfillment of estimated obligations for unfinished litigation is less than 12 months. The Group did not reflect in the financial statements the reserves for the appraisal liabilities at the reporting date for claims, the likelihood of their resolution being assessed, considering the positive judicial practice in favor of the Group as high. The amount of such claims amounted to RUB 9,798,312 thousand principal and RUB 1,678,516 thousand penalties.

27 Financial risk and capital management

In the normal course of its business the Group is exposed to a variety of financial risks, including but not limited to: market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk.

This note provides information on the Group's exposure to each of these risks, examines the goals, policies and procedures for assessing and managing risks and the Group's capital management system. More detailed quantitative information is disclosed in the relevant sections of these consolidated financial statements.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Trade and other receivables

In order to manage credit risk, The Group uses a prepayment system in relations with customers, whenever possible. As a rule, the prepayment for the technological connection services of customers to the networks is stipulated by the contract. The Group doesn't require collateral for receivables.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group takes appropriate measures for the timely collection of receivables. In order to implement measures to reduce and prevent the growth of accounts receivables, the debt is divided mainly into current, overdue, doubtful and bad. When monitoring credit risk, buyers are grouped by type of receivables and maturities.

The Group creates an allowance for expected credit losses on trade and other receivables, the estimated value of which is determined based on the model of expected credit losses weighted by the degree of probability of a default and can be adjusted upwards or downwards. To do this, the Group analyzes the creditworthiness of customers, the dynamics of debt repayment, takes into account changes in the terms of payment, the availability of letters of guarantee about debt repayment, the current general economic conditions.

27 Financial risk and capital management (continued)

Level of credit risk

The carrying amount of financial assets reflects the Group's maximum exposure to credit risk. At the balance sheet date the maximum level of credit risk was:

	Carrying amount	
	31 December 2018	31 December 2017
Available-for-sale financial assets	-	189,945
Financial assets at fair value through other comprehensive income	191,900	-
Trade and other receivables (net of allowance for impairment)	12,258,106	11,716,277
Cash and cash equivalents	787,053	1,362,307
	13,237,059	13,268,529

At the balance sheet date the maximum level of credit risk in respect of trade receivables (excluding other receivables) by customer groups was as follows:

	Gross	Impairment loss	Gross	Impairment loss
	31 December 2018	31 December 2018	31 December 2017	31 December 2017
Buyers of electricity sales services	1,522,274	(1,393,223)	1,887,214	(1,744,639)
Buyers of electricity transmission services	20,977,284	(9,973,809)	20,314,556	(9,584,300)
Buyers of technological connection to networks	241,728	(109,051)	211,607	(111,333)
Other buyers	428,729	(73,503)	248,575	(38,999)
	23,170,015	(11,549,586)	22,661,952	(11,479,271)

The carrying amount of trade receivables attributable to the ten largest debtors of the Group was RUB 9,220,203 thousand as at 31 December 2018 (as at 31 December 2017: RUB 9,156,225 thousand).

27 Financial risk and capital management (continued)

Allowance for expected credit losses of trade and other receivables

The aging of trade and other receivables is provided below:

	Gross	Impairment loss	Gross	Impairment loss
	31 December 2018	31 December 2018	31 December 2017	31 December 2017
Not past due	8,576,631	(29,191)	8,362,673	(105,526)
Past due less than 3 months	1,184,531	(65,154)	673,828	(123,194)
Past due more than 3 months and less than 6 months	581,612	(125,922)	301,038	(204,986)
Past due more than 6 months and less than 1 year	1,520,304	(428,964)	1,389,519	(616,229)
Past due more than 1 year	12,919,062	(11,874,803)	13,612,770	(11,573,616)
	24,782,140	(12,524,034)	24,339,828	(12,623,551)

The Group believes that the overdue unimpaired accounts receivables are highly recoverable at the Financial Statement date.

The movement in the allowance for expected credit losses (the allowance for impairment of trade and other receivables in accordance with IAS 39) was as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Balance at 1 January in accordance with IAS 39	-	13,549,983
Balance for allowance for expected credit losses at 1 January 2018 in accordance with IFRS 9	12,623,551	-
Increase for the period	1,693,488	1,922,621
Amounts of trade and other receivables written off using the allowance for impairment accrued earlier	(636,393)	(911,985)
Reversal of allowance for impairment for the period	(1,156,612)	(1,937,068)
Balance at 31 December	12,524,034	-
Balance at 31 December 2017 in accordance with IAS 39		12,623,551

27 Financial risk and capital management (continued)
(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Management of liquidity risk involves maintaining sufficient cash and the availability of financial resources by securing credit lines. The Group adheres to a balanced model of financing working capital by using both short-term and long-term sources. Basically temporarily free funds invested in the short-term financial instruments such as Bank deposits.

The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

In 2018, the Group entered into agency agreements for the purpose of timely settlements with major counterparties. As at 31 December, 2018, the Group's debt under such agreements amounted to RUB 2,579,166 thousand, the agency fee amounted to RUB 5,362 thousand.

The amount of free limit on open but unused credit lines of the Group was RUB 27,930,000 thousand at 31 December 2018 (31 December 2017: RUB 22,010,000 thousand). The Group has opportunity to attract additional financing within the corresponding limits, including for the purpose of execution of the short-term obligations.

Information about the contractual maturities of financial liabilities, including estimated interest payments and without influence of netting, is provided below. With respect to the cash flows included in the maturity analysis, it is not expected that they can arise much earlier in time or in significantly different amounts:

27 Financial risk and capital management (continued)

31 December 2018	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years
Non-derivative financial liabilities								
Loans and borrowings	25,099,154	29,321,877	2,920,493	8,248,325	18,153,059	-	-	-
Bonds	15,290,522	16,908,350	11,388,600	346,500	5,173,250	-	-	-
Trade and other payables	10,687,678	10,715,705	10,603,236	53,341	26,852	26,852	917	4,507
	51,077,354	56,945,932	24,912,329	8,648,166	23,353,161	26,852	917	4,507
31 December 2017								
Non-derivative financial liabilities								
Loans and borrowings	26,215,419	31,570,395	4,327,829	6,817,558	20,425,008	-	-	-
Bonds	15,265,247	17,393,850	6,351,750	11,042,100	-	-	-	-
Trade and other payables	6,831,526	6,832,596	6,784,572	31,765	913	913	913	13,520
	48,312,192	55,796,841	17,464,151	17,891,423	20,425,921	913	913	13,520

27 Financial risk and capital management (continued)

(c) Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates, prices of goods and equity prices that will affect the Group's financial results or the value of its financial instruments owned. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.

Currency risk

The majority of the Group's revenues and expenditures, monetary assets and liabilities are denominated in RUB, and as such financial results are insignificantly impacted by changes in exchange rates.

Interest rate risk

Changes in interest rates mainly affect loans and borrowings, since they change either their fair value (for loans and borrowings with a fixed interest rate) or future cash flows (for loans and borrowings with a floating interest rate). The Group Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or floating interest rates. However, making a decision about new loans and borrowings, the Management of Group gives priority to loans and borrowings with fixed interest rates and as a result, the Group is exposed to interest rate risk to a limited extent.

As a rule, loan agreements entered into by the Group do not contain and charges for the early repayment of loans on the borrower's initiative, which facilitates additional flexibility in relation to optimizing interest rates in the current economic environment.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss for the period. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Other market price risk

Equity price risk arises from available-for-sale equity securities. The Management of the Group monitors its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Group Management. As at 31 December 2018, available-for-sale financial assets exposed to equity price risk amounted to RUB 191,900 thousand (31 December 2017: RUB 189,945 thousand). If the stock prices were 10% larger (lower) at constant values of all other variables, the other comprehensive income increased (decreased) by RUB 19,186 thousand.

(d) Fair value and carrying amount

The Group's management believes that the fair value of other financial assets and financial liabilities approximates their carrying value.

During the year ended 31 December 2018, there was no transfer between the levels of the fair value hierarchy.

Reconciliation of the carrying amount of financial assets at fair value through other comprehensive income at the beginning and end of the reporting period is presented in the table below:

	Financial assets at fair value through other comprehensive income	Available-for-sale financial assets
	2018	2017
At 1 January	189,945	213,181
Change in fair value recognized in other comprehensive income	1,955	(23,235)
At 31 December	191,900	189,945

27 Financial risk and capital management (continued)

(e) Capital management

The main goal of capital management for the Group is to maintain a consistently high level of capital that allows investors, creditors and market participants to remain in trust and ensure sustainable business development in the future.

The Group monitors the dynamics of indicators of the capital structure (borrowed and owned), including the ratio of borrowed funds (the objective limit for the financial lever), calculated on the basis of the date of the accounting statements under RAS. In accordance with credit policy the Groups' companies must maintain the loan ratio, calculated as the ratio of the total amount of borrowed funds to the total amount of capital at a level no higher than 1.

The Company and its subsidiaries are required to comply with the statutory requirements for adequacy of equity capital, according to which the value of their net assets, determined in accordance with Russian accounting principles, must constantly exceed the amount of the authorized capital.

As at 31 December 2018 and as at 31 December 2017, these requirements were met.

28 Operating leases

Operating lease expenses were recognized in operating expenses in the amount of RUB 520,383 thousand for the year ended 31 December 2018 (for the year ended 31 December 2017 in the amount of RUB 477,983 thousand).

Payments under operating lease agreements are payable in the following order:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Less than one year	423,268	435,404
Between one and five years	1,624,083	617,844
More than five years	3,050,573	3,538,778
	<u>5,097,924</u>	<u>4,592,026</u>

29 Capital commitments

As at 31 December 2018, The Group has outstanding commitments under contract for the purchase and construction of property, plant and equipment items for RUB 9,286,190 thousand inclusive of VAT (as at 31 December 2017: RUB 5,826,007 thousand inclusive of VAT).

30 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 in case of damage or loss assets. However, there are risks of negative impact on the operations and the financial position of the Group in the 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.

30 Contingencies (continued)

(b) Taxation contingencies

Russian tax and customs legislation is subject to varying interpretations regarding the operations and activities of the Group. Accordingly, management's interpretation of tax legislation and its formal documentation can be successfully challenged by the relevant regional or federal authorities. Tax administration in Russia is gradually increasing. In particular, the risk of checking the tax aspect of transactions without obvious economic sense or with counterparties that violate tax laws is increasing. Tax audits may cover the three calendar years preceding the year of the decision on the tax audit. Under certain conditions, earlier periods may also be subject to verification.

New transfer pricing legislation came into force since 1 January 2012, which significantly changed the rules for transfer pricing, bringing them closer to the principles of the organization for economic cooperation and development (OECD), but also to create additional uncertainty in connection with practical application of tax legislation in individual cases.

The practice of applying new rules on transfer pricing by tax authorities and laws is absent, since tax inspections for compliance with new rule of transfer pricing have recently begun. However, it is expected that transactions that are governed by transfer pricing rules will be subject to detailed verification, which could potentially have an impact on these consolidated financial statements.

As the practice of applying taxation rules for property tax, tax authorities and courts can be challenged, the criteria for classifying property as movable or immovable property used by the Group may be challenged. The management of the Group cannot predict the outcome and amount of potential costs to settle potential tax risks.

At 31 December, 2018, management believes that the relevant provisions of the law are interpreted correctly, and the position of the Group in terms of compliance with tax, currency and customs legislation can be justified and protected.

(c) Litigations

The Group is a party to a number of litigations (both as a plaintiff and as respondent) arising in the ordinary course of business. In the opinion of Management, there are currently no outstanding claims or other claims that could have a material impact on the Group's results of operations or financial position and would not be recognized or disclosed in the consolidated financial statements.

(d) Environmental matters

The Group has operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation continues to evolve, responsibilities of authorized Government bodies to oversee are being reconsidered. Potential environmental liabilities arise from changes in interpretations of existing legislation, lawsuits or changes in legislation can be assessed. In the opinion of management under the existing control system and under current legislation, there are no probable liabilities that could have a material adverse effect on the financial position, results of operations or cash flows of the Group.

(e) Disagreements with contractors

The practice of the Group in selling its services and fulfilling its obligations generally conforms to the requirements of the Russian legislation on the electric power industry. Disagreements in the assessment of mutual obligations of the electricity market entities over several reporting periods are realized in that the consent of the parties is achieved through a judicial process. Disagreements arise in terms of productive supply due to different approaches to its calculation, applied tariffs (prices) and points of accounting (supply). The judiciary may agree with the position of consumers.

Differences in the calculation of physical indicators of electricity transmission services affect the calculation of physical indicators acquired by the Group from electricity distribution companies to compensate for losses

30 Contingencies (continued)

in the networks. Accounts receivable for electricity transmission services, which are challenged by consumers, subject to negative judicial practice in the relevant disputes, are included in provisions for doubtful debts, and the amounts of unrecognized debt for electricity purchased for compensation for losses in such cases are included in estimated liabilities. At the same time, disputes over obligations to pay electricity for compensation for losses in court are often not considered and settled by the parties after the dispute is resolved in terms of revenue.

(f) Provisions received and issued

The Group receives and issues collateral for future obligations. The amount of collateral received as at 31 December 2018 is RUB 2,021,840 thousand. (as at 31 December 2017: RUB 1,762,253 thousand), the provisions issued for 31 December 2018 amount to RUB 19,394 thousand. (31 December 2017: RUB 27,605 thousand).

31 Related party transactions

(a) Control relationships

Related parties are shareholders, affiliates and entities under common ownership and control of the Group, members of the Board of Directors and key management personnel of the Company. The Company's parent as at 31 December 2018 and 31 December 2017 was PJSC "Russian Grids". The final controlling party is the state represented by the Federal Property Management Agency, which owns a controlling stake in PJSC "Russian Grids".

(b) Transactions with the parent company, its subsidiaries and associates

Transactions with the parent company, its subsidiaries and associates include operations with PJSC "Russian Grids", its subsidiaries and associates:

	Amount of the transaction for the year ended 31 December		Carrying amount	
	2018	2017	2018	2017
Revenue, net other income, finance income				
Parent company				
Net other income	780	780	-	-
Entities under common control of the parent company				
Technological connection services	423	-	200	-
Sales of electricity and capacity	79	94	-	-
Rent	2,165	1,520	171	165
Other revenue	330,597	95,801	206,711	51,083
Net other income	87,220	27,444	38	-
Dividends receivable	420	309	-	-
	421,684	125,948	207,120	51,248

31 Related party transactions (continued)

	Amount of the transaction for the year ended 31 December		Carrying amount	
	2018	2017	2018	2017
Operating expenses, finance costs				
Parent company				
Expenses for services related to the organization of the functioning and development of the EEC	242,405	342,398	46,753	22,617
Technical supervision services	42,249	42,249	-	-
Other expenses	13,247	13,247	-	-
Interest expenses on financial liabilities recorded at amortized cost	1,286,600	1,665,950	229,750	277,900
Entities under common control of the parent company				
Electricity for sale	1,306	1,067	25	18
Electricity transmission services	17,315,181	16,822,688	871,099	854,789
Technological connection services	2,290	4,658	-	-
Repair and maintenance services	25,573	1,485	138,552	1,753
Rent	4,795	7,234	6,114	478
Other expenses	305,305	40,000	118,575	7,864
	19,238,951	18,940,976	1,410,868	1,165,419
	Carrying amount			
	2018	2017		
Parent company				
Loans and borrowings	10,219,596	15,265,247		
Entities under common control of the parent company				
Advances given	67,498	27,119		
Advances received	202,669	194,067		
	10,489,763	15,486,433		

The debt to the parent company for the payment of dividends is absent as of 31 December 2018 and as of 31 December 2017.

(c) Transactions with key management personnel

In order to prepare these consolidated financial statements, the key management personnel are members of the Board of Directors, the management Board, General Directors of subsidiaries and other key management personnel.

The Group has no transactions or balance with key management and close family members, except for their remuneration in the form of salary and bonuses.

31 Related party transactions (continued)

The amounts of remuneration to key management personnel disclosed in the table represent the current period expenses for key management personnel reflected in employee benefits.

	Year ended 31 December 2018	Year ended 31 December 2017
Short-term employee benefits	454,513	287,574
Retirement benefits	-	8,564
	454,513	296,138

As at 31 December 2018, the current value of the defined benefit obligation is shown in the consolidated statement of financial position and includes liabilities for key management personnel in the amount RUB 13,727 thousand (as at 31 December 2017: RUB 14,551 thousand).

(d) Transactions with government-related entities

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

Revenues from state-controlled entities for the year ended 31 December 2018 constitute 41% (for the year ended 31 December 2017: 40%) of total Group revenues, including 43% (for the year ended 31 December 2017: 41%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for state-controlled entities for the year ended 31 December 2018 constitute 62% (for the year ended 31 December 2017: 62%) of total electricity transmission costs.

Interest expense for government-related entities account for 54% of the total interest expenses for the year ended 31 December 2018 (for the year ended 31 December 2017: 52%).

As at 31 December 2018, the balance of cash and cash equivalents held with state-controlled banks is RUB 756,026 thousand (as at 31 December 2017: RUB 374,711 thousand).

Loans and borrowings received from state-controlled banks are disclosed in Note 22.

32 Events after the reporting date

Events after the balance sheet date, which should be reflected in the consolidated financial statements for the reporting period, have not been identified.