PJSC «IDGC of Centre»

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2019

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улучшаем мир

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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 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2019, 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 2019 and its consolidated financial performance and its consolidated cash flows for 2019 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.

Совершенствуя бизнес,
улучшаем мир

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 key audit 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 gave rise to 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 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 calculation 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 allowance for expected credit losses on trade receivables was one of the most significant matters for our audit due to the material balances of trade receivables as of 31 December 2019, 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 predicted solvency of the Group's customers. Information on the allowance for expected credit losses on trade receivables is disclosed in Note 21, 33 to the consolidated financial statements.	We analyzed the Group's accounting policy on trade receivables with respect to the allowance for expected credit losses on trade receivables, and considered the assessment procedures performed 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, as well as the structure of receivables by age and maturity, tested the calculation of the charged allowance amounts based on management's estimates.

Key audit matter	How our audit addressed the key audit 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 32, 35 to the consolidated financial statements.	Audit procedures also involved analyzing decisions made by courts of different instances; considering management's judgments with regard to its assessment of the possibility of the economic resources outflow due to dispute settlement; examining the compliance of prepared documentation with provisions of existing contracts and legislation; and analyzing disclosures on provisions and contingent liabilities in notes to the consolidated financial statements.
Impairment of non-current assets	
Due to the existence of impairment indicators in respect of non-current assets as of 31 December 2019, 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 2019, was determined by the projected cash flow method. The 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 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 15 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 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.

Other information included the annual report

Other information consists of the information included in annual report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do 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

10 March 2020

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 119017, Moscow, Malaya Ordynka st., 15.

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-regulatory organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

(in thousands of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2019	2018
Revenue	7	94,641,562	93,935,259
Operating expenses	11	(88,510,090)	(87,228,063)
Accrual of allowance for expected credit losses	33	(831,785)	(536,876)
Net (accrual) / recovery of impairment losses on property, plant and equipment and assets in the form of rights of use	15, 17	881,180	(96,886)
Other income	8	2,514,896	1,356,103
Other expenses	9	(578,245)	(53,483)
Result from operating activities		**8,117,518**	**7,376,054**
Finance income	13	146,949	125,277
Finance costs	13	(3,603,127)	(3,405,876)
Total financial costs		**(3,456,178)**	**(3,280,599)**
Profit before income tax		**4,661,340**	**4,095,455**
Income tax expense	14	(1,508,146)	(1,099,613)
Profit for the period		**3,153,194**	**2,995,842**
Other comprehensive income			
Items that will never be reclassified subsequently to profit or loss			
Changes in the fair value of equity investments accounted for at fair value through other comprehensive income	18	15,357	1,955
Remeasurements of the defined benefit liability	28	(1,047,816)	125,617
Income tax related to items that will never be reclassified subsequently to profit or loss	19	167,996	(8,122)
Total items that will not be reclassified subsequently to profit or loss		**(864,463)**	**119,450**
Other comprehensive income/(expense) for the period, net of income tax		**(864,463)**	**119,450**
Total comprehensive income for the period		**2,288,731**	**3,115,292**
Profit attributable to:			
Equity holders of the Company		3,081,725	2,935,245
Non-controlling interests		71,469	60,597
Total comprehensive income attributable to:			
Equity holders of the Company		2,217,262	3,054,695
Non-controlling interests		71,469	60,597
Earnings per share			
Basic and diluted earnings per ordinary share (in RUB)	25	0.073	0.070

These consolidated financial statements were approved by management on 10 March 2020 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

(in thousands of Russian rubles, unless otherwise stated)

	Notes	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	15	94,313,194	87,860,303
Intangible assets	16	2,476,115	2,784,394
Right-of-use assets	17	2,808,335	-
Trade and other receivables	21	128,138	575,449
Assets related to employee benefits plans	28	514,585	549,081
Other non-current financial assets	18	207,257	191,900
Advances given and other non-current assets	22	2,801	9,813
Total non-current assets		**100,450,425**	**91,970,940**
Current assets			
Inventories	20	2,682,124	2,735,443
Income tax prepayments		19,807	379,356
Trade and other receivables	21	12,971,865	11,682,657
Cash and cash equivalents	23	1,517,108	787,053
Advances given and other current assets	22	755,090	570,016
Total current assets		**17,945,994**	**16,154,525**
Total assets		**118,396,419**	**108,125,465**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	4,221,794	4,221,794
Reserves		(1,063,748)	(199,285)
Retained earnings		41,944,315	40,580,643
Total equity attributable to equity holders of the Company		**45,102,361**	**44,603,152**
Non-controlling interest		984,795	259,822
Total equity		**46,087,156**	**44,862,974**
Non-current liabilities			
Long-term borrowed funds	26	39,323,975	29,076,926
Long-term trade and other payables	29	98,121	90,404
Long-term advances from customers	31	731,546	618,436
Employee benefits	28	2,996,844	1,950,777
Deferred tax liabilities	19	4,537,916	5,129,281
Total non-current liabilities		**47,688,402**	**36,865,824**
Current liabilities			
Short-term borrowed funds and current part of long-term borrowed funds	26	7,168,941	11,312,750
Trade and other payables	29	10,086,163	10,597,274
Tax debts other than income tax	30	2,757,508	2,043,146
Advances from customers	31	2,136,468	1,626,437
Provisions	32	2,251,523	812,931
Current income tax liabilities		220,258	4,129
Total current liabilities		**24,620,861**	**26,396,667**
Total liabilities		**72,309,263**	**63,262,491**
Total equity and liabilities		**118,396,419**	**108,125,465**

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

(in thousands of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**4,661,340**	**4,095,455**
Adjustments for:			
Depreciation and amortization of property, plant and equipment and intangible assets	15,16,17	10,848,219	9,909,297
Impairment of property, plant and equipment and assets in the form of rights of use	15,17	(881,180)	96,886
Finance costs	13	3,603,127	3,405,876
Finance income	13	(146,949)	(125,277)
Loss on disposal of property, plant and equipment		574,574	45,150
Accrual of allowance for expected credit losses		831,785	536,876
Bad debt write-off		37,058	7,707
Accrual of provisions	32	1,676,637	548,079
Acquisition of subsidiaries	5	(1,036,900)	-
Other non-cash transactions		(63,570)	16,394
Total impact of adjustments		**15,442,801**	**14,440,988**
Change in assets related to employee benefits plans		34,496	(7,402)
Change in employee benefit liabilities		(154,274)	(521,048)
Change in long-term trade and other receivables		488,956	451,631
Change in long-term advances given and other non-current assets		5,965	(6,537)
Change in long-term trade and other payables		617	64,446
Change in long-term advances received		113,110	(256,895)
Cash flows from operating activities before changes in working capital and provisions		**20,593,011**	**18,260,638**
Changes in working capital:			
Change in trade and other receivables		(2,388,288)	(1,600,052)
Change in advances given and other assets		(186,678)	43,319
Change in inventories		181,967	(602,306)
Change in trade and other payables		(1,607,516)	3,495,315
Change in advances received		364,935	(431,360)
Change in provisions		(238,045)	(222,891)
Cash flows from operating activities before income taxes and interest paid		**16,719,386**	**18,942,663**
Income tax paid		(1,010,476)	(1,152,050)
Interest paid under lease agreement		(207,115)	(683)
Interest paid		(3,556,181)	(3,352,965)
Net cash flows from operating activities		**11,945,614**	**14,436,965**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(11,997,997)	(13,098,407)
Proceeds from the sale of property, plant and equipment and intangible assets		113,470	13,039
Acquisition of subsidiaries, net of cash received		(1,289,606)	-
Interest received		90,412	53,971
Dividends received		14,436	14,419
Net cash flows used in investing activities		**(13,069,285)**	**(13,016,978)**

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

(in thousands of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowed funds		35,389,553	104,063,884
Repayment of borrowed funds		(32,447,774)	(105,189,311)
Dividends paid to equity holders of the Company		(865,315)	(868,222)
Dividends paid to shareholders of non-controlling interests		(17,150)	-
Payment of lease liabilities		(205,588)	(1,592)
Net cash flows received from/(used in) financing activities		**1,853,726**	**(1,995,241)**
Net change in cash and cash equivalents		**730,055**	**(575,254)**
Cash and cash equivalents at the beginning of period		787,053	1,362,307
Cash and cash equivalents at the end of period	23	**1,517,108**	**787,053**

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

(in thousands of Russian rubles, unless otherwise stated)

		Attributable to equity holders of the Company					
	Notes	**Share capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2019		**4,221,794**	**(199,285)**	**40,580,643**	**44,603,152**	**259,822**	**44,862,974**
Profit for the period		–		3,081,725	3,081,725	71,469	3,153,194
Other comprehensive expense	18,19, 28	–	(1,032,459)	–	(1,032,459)	–	(1,032,459)
Related income tax		–	167,996	–	167,996	–	167,996
Total comprehensive income/(expense) for the period		**–**	**(864,463)**	**3,081,725**	**2,217,262**	**71,469**	**2,288,731**
Transactions with owners							
Dividends	24	–	–	(1,723,261)	(1,723,261)	(17,150)	(1,740,411)
Other	5,24	–	–	5,208	5,208	670,654	675,862
Total contributions and payments		**–**	–	**(1,718,053)**	**(1,718,053)**	**653,504**	**(1,064,549)**
Balance at 31 December 2019		**4,221,794**	**(1,063,748)**	**41,944,315**	**45,102,361**	**984,795**	**46,087,156**

		Attributable to equity holders of the Company					
	Notes	**Share capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2018		**4,221,794**	**(318,735)**	**38,516,878**	**42,419,937**	**199,225**	**42,619,162**
Profit for the period		–		2,935,245	2,935,245	60,597	2,995,842
Other comprehensive income	18,19,28	–	127,572	–	127,572	–	127,572
Related income tax		–	(8,122)	–	(8,122)	–	(8,122)
Total comprehensive income for the period		**–**	**119,450**	**2,935,245**	**3,054,695**	**60,597**	**3,115,292**
Transactions with owners							
Dividends	24	–	–	(879,028)	(879,028)	–	(879,028)
Other	24	–	–	7,548	7,548	–	7,548
Total contributions and payments		**–**	–	**(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

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 “IDCG 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 Company’s registered office is Malaya Ordynka St., 15, Moscow, 119017, Russia.

The Company’s de facto address is Malaya Ordynka St., 15, Moscow, 119017, 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 economy of the Russian Federation exhibits some of the characteristics of emerging markets. The country's economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory system continues to evolve and is subject to frequent changes, as well as the possibility of different interpretations. Ongoing political tensions, as well as international sanctions against some Russian companies and citizens, continue to have a negative impact on the Russian economy. The stability of oil prices, low unemployment and rising wages contributed to moderate economic growth in 2019. This economic environment has a significant impact on the Group's operations and financial position.

The Group's management takes all necessary measures to ensure the sustainability of the Group's operations in the current environment. These consolidated financial statements reflect management's view of the impact of the business environment in the Russian Federation on the Group's operations and financial position. However, the future consequences of the current economic situation are difficult to predict, and as a result, the current estimates and expectations of the Group's management may differ from the actual results.

1 Background (continued)

(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 2019, 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 2018 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, expect 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 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:

2 Basis of preparation of consolidated financial statements (continued)

Impairment of fixed assets and right-of-use assets

At each reporting date, management of the Group determines whether there is any indication of impairment of fixed assets and assets in the form of a right of use. 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" and "Assets in the form of rights of use».

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 date 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

Starting 01 January 2019 the Group began to apply IFRS 16 Leases as described below:

IFRS 16 Leases

The new standard, issued in 2016, replaces the previous leases standard, IAS 17 Leases, and the related interpretations; IFRS 16 Leases eliminates the classification of leases as either operating leases or finance leases thus establishing a single lessee accounting model.

The contract as a whole or its individual components is a lease if the contract transfers the right to control the use of the identified asset for a certain period in exchange for compensation.

Right-of-use assets are initially measured at cost and depreciated to the earlier of the useful life of the right-of-use asset or the end date of lease term. The initial cost of the right-of-use asset includes the amount of the initial measurement of the lease liability, lease payments made at or before the commencement of the lease and initial direct costs. After recognition, the right-to-use assets are carried at cost less accumulated depreciation and accumulated impairment losses. Rights-of-use assets are presented in the statement of financial position as a separate item.

Lease liability shall be measured initially at the present value of the lease payments that are not paid at the commencement date and subsequently measured at amortized cost with recognition of interest costs as the component of finance costs in the consolidated statement of profit or loss and other comprehensive income. Lease liabilities are presented in the statement of financial position under borrowed funds (long-term and short-term).

2 Basis of preparation of consolidated financial statements (continued)

In respect of a separate lease agreement, it may be decided to qualify the contract as a lease for which the underlying asset is of low value. Lease payments under such a contract will be recognized on a straight-line basis over the lease term.

The Group determines the lease term as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

In determining the lease term, the Group considers the following factors:

- whether the leased object is a specialized;
- location of the object;
- the presence of the Group and the lessor's practical ability to select an alternative contractor (for the selection of alternative asset);
- costs associated with the termination of the lease and the conclusion of a new (replacement) contract;
- existence of significant improvements to the leased facilities.

The main objects of the Group's lease are power grid facilities (power transmission networks, power transmission equipment, etc.) and lands. The group also leases non-residential real estate and vehicles.

For leases of land plots under electric grid facilities with an indefinite period of time or with a contract period of not more than 1 year with the possibility of annual extension, the Group determines the term of the contract using the useful life of fixed assets located on leased land plots as a basic criterion.

For leases of electric grid facilities with an indefinite term or with a contract term of not more than 1 year with the possibility of annual extension, the Group determines the term of the contract using the useful life of its own fixed assets with similar technical characteristics as a basic criterion.

The group applied a modified retrospective approach, which implies a reflection of the cumulative effect of the initial application of the standard at the date of initial application as at January 1, 2019. The weighted average rate of additional borrowing, applied to lease liabilities recognized in the statement of financial position at the date of initial application was 9.74%.

The effect of the initial application of IFRS 16 Leases has had the following effects on the Group's assets and liabilities:

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

(in thousands of Russian rubles, unless otherwise stated)

2 Basis of preparation of consolidated financial statements (continued)

Reconciliation between the contractual obligations under operating leases, disclosed in accordance with IFRS (IAS) 17 on 31 December 2018 and the lease obligation recognized in the statement of financial position on 1 January 2019 in accordance with IFRS (IFRS) 16 Leases is presented below.

	As at 1 January 2019
Operating lease liabilities as at 31 December 2018 disclosed in the consolidated financial statements of the Group	5,097,924
Exemption for the recognition of short-term leases	(1,644)
Effect of discounting	(2,820,540)
Finance lease liabilities recognized as at 31 December 2018	696
Other factors	6,069
Lease liabilities recognized as at 1 January 2019	**2,282,505**

(f) Change in presentation

Reclassification of comparative date

In the reporting period, the Group changed the presentation of certain amounts to provide more exact information in the consolidated statement of financial position and the consolidated statement of profit or loss and other comprehensive income. To ensure comparability, reclassifications were made to the previous reporting period:

- allowance for expected credit losses previously disclosed in the note "Operating expenses" are separated into individual item in the consolidated statement of profit or loss and other comprehensive income$
- the net accrual / net recovery of impairment loss on property, plant and equipment, previously disclosed in the Note “Operating expenses”, is allocated as a separate item in the consolidated statement of profit or loss and other comprehensive income.
- other income and other expenses previously disclosed in the note "Net other income" are separated into individual items in the consolidated statement of profit or loss and other comprehensive income;
- advances given and other non-financial assets previously disclosed in the note "Trade and other receivables" are separated into individual items "Advances given and other non-current assets", "Advances given and other current assets" in the consolidated statement of financial position;
- long-term and short-term advances from customers (contract obligations) previously disclosed in the note "Trade and other payables" are presented separately in the consolidated statement of financial position;
- tax debts other than income tax previously disclosed in the Note “Trade and other payables” are presented separately in the consolidated statement of financial position.

(g) Application of new and revised standards and interpretations

Except for the changes in accounting policies described in sections 2 (d), the following amendments and explanations, effective on 1 January 2019, have no effect on these consolidated interim condensed financial statements:

- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Prepayment Features with Negative Compensation;
- Amendments to IFRS 3 Business Combinations;
- Amendments to IFRS11 Joint Arrangements;
- Amendments to IAS 12 Income Taxes – Tax consequences of payments for Financial Instruments classified as Equity;
- Amendments to IAS 23 Borrowing Costs;
- Amendments to IAS 28 Long-term interests in associates and joint ventures;

2 Basis of preparation of consolidated financial statements (continued)

- Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement.

New reduction of the Conceptual framework for financial reporting, following new standards and interpretations have been issued and are effective for annual periods beginning on or after 1 January 2020 and have not been applied by the Group ahead of schedule:

- IFRS 17 Insurance Contracts;
- Amendments to IFRS 3 Business Combinations;
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

According to the Group, the above standards, standards for amendments and explanations will not have a significant impact on the consolidated financial statements of the Group.

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 the start of from January 1, 2019 IFRS 16 Leases, and the reclassifications of comparative information disclosed in note 2 (f).

(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.

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

3 Significant accounting policies (continued)

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.

(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) Financial instruments

i.Financial assets

The Group classifies financial assets into the following measurement categories: subsequently measured at amortized cost, measured at fair value through other comprehensive income and measured at fair value through profit or loss. The classification depends on the financial asset management business model and the cash flow characteristics of the contracts.

Financial assets are classified as measured at amortized cost if the following conditions are met: the asset is held in the framework of a business model, the purpose of which is to hold assets to receive cash flows stipulated by the contract, and the terms of the contract determine receipt of cash flows on specified dates, which are exclusively payments to the account principal amount of the debt and interest on the outstanding part of the principal amount of debt.

The Group includes the following financial assets in the category of financial assets measured at amortized cost:

- trade and other receivables that meet the definition of financial assets if the Group has no intention to sell immediately or in the near future;
- bank deposits not meeting the definition of cash equivalents;
- bills and bonds not held for trading;
- loans;

3 Significant accounting policies (continued)

- cash and cash equivalents.

For financial assets classified as measured at amortised cost provision for expected credit losses.

Upon derecognition of financial assets measured at amortized cost and fair value with any change therein recognised in profit or loss, the Group presents in the statement of profit or loss and other comprehensive income (through profit or loss) financial result from disposal equal to the difference between the fair value of consideration received and the carrying amount of the asset.

In the category of financial assets at fair value through other comprehensive income, the Group includes equity instruments other companies:

• not classified as measured at fair value with any change therein recognised in profit or loss; and

• do not provide Group control, joint control or significant influence over the company-object of investment.

At derecognition of equity instruments of other companies classified in the discretion of the Group as at fair value through other comprehensive income previously recognized components of other comprehensive income are transferred from the reserve for changes in fair value to retained earnings.

ii. Impairment of financial assets

Impairment provisions are assessed either on the basis of 12-month expected credit loss, which are the result of possible defaults within 12 months after the reporting date, or expected credit loss for the entire life period, which are the result of all possible cases of non-fulfillment of obligations during the expected term of the financial instrument.

For trade receivables or contractual assets arising from transactions that are within the scope of IFRS 15 Revenue from Contracts with Customers (including those that contain a significant financing component) and lease receivables, the Group uses a simplified approach to measuring provisions for expected credit losses - an estimate in an amount equal to the expected credit losses for the entire term.

Impairment allowances for other financial assets classified as measured at amortized cost are measured on the basis of 12-month asset allocation if there has not been a significant increase in credit risk since recognition. The estimated provision for expected credit losses for a financial instrument is assessed at each reporting date in an amount equal to expected credit losses for the entire period if the credit risk for this financial instrument has increased significantly since initial recognition, taking into account all reasonable and confirmed information, including predictive.

As indicators of significant deterioration in credit risk the Group considers the actual or anticipated difficulties of the Issuer or of a debtor's asset, the actual or expected breach of contract, the expected renegotiation of the contract due to financial difficulties of the debtor at a disadvantage for the Group the terms on which she would disagree in other circumstances.

On the basis of the usual practice of credit risk management the Group defines default as the failure of the counterparty (Issuer) to perform its obligations (including repayment of funds under the contract) due to significant deterioration in the financial position.

The credit impairment loss for financial assets is reflected by recognition of a valuation allowance for its impairment. In respect of a financial asset carried at amortised cost, the amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows, discounted at the original effective interest rate.

If in subsequent periods, the credit risk on financial assets decreases due to an event occurring after the recognition of this loss, the previously recognized impairment loss reversed by reduction of the corresponding valuation allowance. As a result of the recovery, the carrying amount of the asset should not exceed the amount at which it would have been recorded in the statement of financial position if the impairment loss had not been recognized.

3 Significant accounting policies (continued)

iii. Financial liabilities.

The Group classifies financial liabilities into the following measurement categories: financial liabilities at fair value, changes in which are recognized in profit or loss; financial liabilities measured at amortized cost.

In the category of financial liabilities measured at amortized cost, the Group includes the following financial liabilities:

• Borrowed funds (borrowed funds)

• Trade and other payables

Borrowed funds (borrowed funds) are initially recognized at fair value, taking into account transaction costs directly related to raising these funds. Fair value is determined taking into account prevailing market interest rates for similar instruments if they differ materially from transaction prices. In subsequent periods, borrowings are carried at amortized cost using the effective interest method. The entire difference between the fair value of funds received (net of transaction costs) and the amount to be paid off is recognized in profit or loss as interest expense over the entire life of the obligation to repay the borrowed funds.

Borrowing costs are expensed in the reporting period in which they were incurred if they were not related to the acquisition or construction of qualified assets. Borrowing costs related to the acquisition or construction of assets, the preparation of which takes considerable time (qualifying assets), are capitalized as part of the value of the asset. Capitalization is carried out when the Group:

• incur the costs of qualifying assets,

• incur the costs of loans and

• conducts activities related to the preparation of assets for use or sale.

The capitalization of borrowing costs continues until the date the assets are ready for use or sale. The Group capitalizes borrowing costs that could have been avoided if it had not borne the costs of qualifying assets. Borrowing costs are capitalized based on the average cost of financing the Group (weighted average interest expenses related to the costs incurred for qualifying assets), excluding loans that were received directly for the purpose of acquiring a qualifying asset. Actual borrowing costs, reduced by the amount of investment income from temporary investment loans, are capitalized.

Accounts payable are accrued from the moment the counterparty fulfills its obligations under the contract. Accounts payable are recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

(d) Share capital

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

(e) 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

3 Significant accounting policies (continued)

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 "Other income"/"Other expenses", 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.

(f) 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.

3 Significant accounting policies (continued)

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.

(g) Impairment of non-financial assets

The carrying value of non-financial assets the Group other than inventories and deferred tax assets are analysed at each reporting date for signs of possible impairment. If any such indication is calculated the recoverable amount of the asset.

For goodwill the recoverable amount calculated as at each reporting date. The impairment loss is recognised if the carrying amount of an asset or its respective unit generating cash flows exceeds its calculated (the recoverable amount). The recoverable amount of the asset or unit generating cash flows, represents the larger of the two values: value in use of the asset (the unit) and his (her) fair value less costs to sell.

For the purpose of conducting checks for impairment, assets that cannot be tested individually are combined into the lowest group, which generated cash flows that the continuing use of the relevant assets, and these inflows largely independent from the cash flows generated by other assets or groups of assets ("unit generating cash flows").

For the purposes of the test for impairment goodwill acquired in the merger of business combination is allocated to groups of units generating cash flows to which it relates.

The General (corporate) assets of the Group do not generate independent cash flows and are used for more than one generating unit cash flows. The cost of the corporate asset is allocated between the units on a reasonable and consistent basis, and its review for impairment is carried out as part of testing the unit to which the corporate asset has been allocated.

Impairment losses are recognized in profit or loss. Impairment losses for cash generating units are first attributable to the decrease in the carrying amount of goodwill allocated to those units, and then proportionately to the decrease in the carrying amount of other assets within the relevant unit (group of units).

Amounts written off to impairment losses on goodwill are not reversed. For other assets at each reporting date, an analysis of the impairment loss recognized in one of the previous periods is carried out in order to identify signs that this loss should be reduced or that it should no longer be recognized.

Amounts written off to impairment losses are reversed if the valuation factors used in calculating the corresponding recoverable amount change. An impairment loss is reversed only to the extent that it is possible to restore the value of the assets to their carrying amount in which they would be recognized (net of accumulated depreciation) if the impairment loss were not recognized.

(h) 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

3 Significant accounting policies (continued)

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.

(i) 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.

(j) 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.

(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.

3 Significant accounting policies (continued)

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 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 its 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) 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. An asset is transferred then (or as it is) a performance obligation is fulfilled. When (or as) a performance obligation is fulfilled, the Group recognizes revenue in the amount that the Group expects to receive in exchange for transferring the promised assets to the buyer, excluding VAT.

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 from the provision of technological connection services is a non- refundable fee for connecting consumers to electric networks. 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.

3 Significant accounting policies (continued)

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.

Trade receivables

Accounts receivable represent the Group's right to compensation, which is unconditional (that is, the moment when such compensation becomes payable is due only to the passage of time).

Contractual obligations

An obligation under a contract is an obligation to transfer to the buyer the goods or services for which the Group has received compensation (or compensation for which is payable) from the buyer. If the buyer pays the consideration before the Group transfers the goods or services to the buyer, a contractual obligation is recognized at the time the payment is made or at the time when the payment becomes payable (whichever occurs earlier). Contractual obligations are recognized as revenue when the Group performs its obligations under the contract. The Group reflects obligations under contracts with customers under the item “Advances received” including value added tax (VAT).

Advances received from buyers and customers are analyzed by the Group for the presence of a financial component. If there is a time interval of more than 1 year between the receipt of advances from buyers and customers and the transfer of promised goods and services for reasons other than the provision of financing to the counterparty (under technological connection agreements to electric networks), the interest expense is not recognized on the advances received. Such advances are carried at the fair value of the assets received by the Group from buyers and customers in advance.

(n) 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.

(o) Social expenditure

When the Group's contributions to social programs are for the benefit of society as a whole and are not limited to payments to employees of the Group, they are recognized in profit or loss as they are made. The Group's expenses related to the financing of social programs , without committing to such financing in the future, are reflected in the consolidated Statement of profit or loss and other comprehensive income as they arise.

3 Significant accounting policies (continued)

(p) Finance income and costs

Financial income includes interest income on invested funds, dividend income, profit on disposal of financial assets measured at fair value and measured at amortized cost, and the effect of discounting financial instruments. Interest income is recognized in profit or loss when incurred, and its amount is calculated using the effective interest rate method. Dividend income is recognized in profit or loss when the Group is entitled to receive the corresponding payment.

Financial expenses include interest expenses on borrowed funds, lease obligations, losses from the disposal of financial assets measured at fair value and measured at amortized cost, and the effect of discounting financial instruments. Borrowing costs that are not directly related to the acquisition, construction or production of a qualifying asset are recognized in profit or loss for the period using the effective interest method.

(q) 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.

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 s net basis or their tax assets and liabilities will be realized simultaneously.

3 Significant accounting policies (continued)

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.

(r) 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.

(s) 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.

(in thousands of Russian rubles, unless otherwise stated)

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 «Voronezh city electric grids»	Russian Federation	100	-
JSC «Tula city electric grids»	Russian Federation	69.9992	-

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 29 June 2018 the decision was made not to pay dividends on ordinary shares for the year 2017.

At the Subsidiary's annual shareholders meeting JCS "Yaroslavl Electric Grid Company" held on 28 June 2019 the decision was made not to pay dividends on ordinary shares for the year 2018.

At the Subsidiary's extraordinary shareholders meeting JCS "Yaroslavl Electric Grid Company" held on 10 December 2019 the decision was made to distribute the Subsidiary's profit for the 9 months year 2019 to dividends in the amount of RUB 17,150 thousand to non-controlling interests and to pay dividends for the year the 9 months year 2019 in the amount of RUB 35.000 thousand per ordinary share in cash

At the Subsidiary's annual shareholders meeting JCS "Sanatorium "Energetic" held on 28 June 2019 the decision was made to distribute the Subsidiary's profit for the year 2018 to dividends in the amount of RUB 128,6 thousand and to pay dividends for the year 2018 in the amount of RUB 0.00837474 per ordinary share in cash.

5 Significant subsidiaries (continued)

Business combination

As part of the implementation of the Development Strategy for the electric grid complex of the Russian Federation, approved by order of the Government of the Russian Federation dated April 3, 2013 No. 511-r, in order to reduce the number of existing TSS, the Group acquired:

– on November 20, 2019, a 100% of shares in the authorized capital of JSC Voronezh City Electric Grids (hereinafter referred to as JSC "VGES") in cash as a result of concluding a share purchase and sale agreement with the administration of the city district of Voronezh following participation in an open tender for the sale of shares of JSC "VGES" "(Minutes of November 05, 2019).
– on December 30, 2019, a 69.9992% of shares in the authorized capital of Tula City Electric Grids JSC (hereinafter referred to as JSC "TGES") from Energokontrol LLC for the rights received to compensate the receivables of TNS Energo PJSC for electricity transmission services.

The group recorded the acquisition of JSC "VGES" and JSC "TGES" using the purchase method in accordance with the requirements of IFRS 3 Business Combination.

Acquisition of JSC "VGES"

The results, assets and liabilities of JSC "VGES" are consolidated by the Group since 20 November 2019. The acquisition price of JSC "VGES" was determined by an independent appraiser in order to conduct an open tender for the sale of shares of JSC "VGES" in the amount of RUB 1,533,899 thousand. The Group acquired 3,148,372 (three million one hundred forty-eight thousand three hundred seventy-two) ordinary registered uncertified shares with a par value of RUB 1.000 (one thousand) per share, which is 100% of the authorized capital of JSC "VGES", were acquired.

The buyers of JSC "VGES" are the subsidiaries of the Company - JSC "Sanatorium "Energetic" and JSC "Yaroslavl Electric Grid Company", while JSC "Sanatorium "Energetic" acquired 99.99997% of the 100% shares in JSC "VGES", which accounts for 3,148,371 ordinary registered non-documentary shares, and JSC "Yaroslavl Electric Grid Company" acquired a 0.00003% shares in the 100% JSC "VGES", which accounts for 1 (one) ordinary registered non-documentary share.

In order to purchase shares of JSC "VGES", JSC "Sanatorium «Energetic" received a loan from the Company for a period up to 12.31.2022 at 8% per annum in the amount of RUB 1,535,444 thousand.

In accordance with the purchase and sale agreement, the title to the shares of JSC "VGES" was postponed until the Group fulfills the tender conditions, however, the Group gains control over the acquired company from the date of election of the board of directors of JSC "VGES" consisting of representatives of the Group. The date of election of the board of directors is November 20, 2019.

The main activities of JSC "VGES" are electric power transmission and technological connection to electric networks.

(in thousands of Russian rubles, unless otherwise stated)

5 Significant subsidiaries (continued)

The assessment of identifiable net assets of JSC "VGES" was carried out by an independent appraiser. The table below shows the estimated fair value of the identifiable net assets of JSC "VGES" received at the acquisition date:

	Fair value, thousand rubles
Non-current assets	
Intangible assets	397
Property, plant and equipment	1,784,063
Deferred tax asset	372,373
Other non-current assets	555
Total non-current assets	**2,157,388**
Current assets	
Inventories	101,118
VAT	10
Trade and other receivables	509,868
Cash and cash equivalents	116,816
Total current assets	**727,812**
Total assets	**2,885,200**
Non-current liabilities	
Deferred tax liabilities	1,430
Total non-current liabilities	**1,430**
Current liabilities	
Trade and other payables	966,985
Provisions	7,784
Total current liabilities	**974,769**
Total liabilities	**976,199**
Total identifiable net assets at fair value	**1,909,001**
Consideration transferred	**1,533,899,**
Gain on a bargain purchase	**375,102**

Since the fair value of the identifiable net assets of JSC "VGES" exceeds the value of the consideration transferred, the Group recognized a gain on a bargain purchase (negative goodwill) in other income in the amount of RUB 375,102 thousand in the consolidated statement of profit or loss and other comprehensive income.

From the acquisition date, the revenue of JSC "VGES" consolidated in the financial statements of the Group amounted to RUB 64,125 thousand, profit before tax amounted to RUB 20,001 thousand. If the merger had occurred at the beginning of the year, the Group's revenue from continuing operations would have amounted to RUB 257,386 thousand, and the Group's profit from continuing operations before tax would have amounted to RUB 132,455 thousand.

The cash inflow when acquiring a company is shown in the following table:

Net cash received on the acquisition of a subsidiary	116,816
Consideration transferred	(1,533,899)
Net cash flow	**(1,417,083)**

5 Significant subsidiaries (continued)

Acquisition of JSC “TGES”

The results, assets and liabilities of JSC “TGES” are consolidated by the Group since 30 December 2019. The acquisition cost of a 69.9992% shares in JSC “TGES” was determined by an independent appraiser in an amount not exceeding the market value of RUB 1,158,000 thousand. The Group acquired 341,004 (three hundred forty one thousand four) ordinary registered uncertified shares with a nominal value of RUB 1,000 (one thousand) per share, which makes 69.9992% of the authorized capital of JSC “TGES”.

The buyers of JSC “TGES” are the subsidiaries of the Company - JSC “Sanatorium “Energetic” and JSC “Yaroslavl Electric Grid Company”, while JSC “Sanatorium “Energetic” acquired a 69.9990% shares in the 100% equity in JSC “TGES”, which accounts for 341,003 ordinary registered non-documentary shares, and JSC “Sanatorium “Energetic” acquired a 0.0002% shares in the 100% equity in JSC “TGES”, which accounts for 1 (one) ordinary registered non-documentary share.

In accordance with the purchase and sale agreement, the title to the shares of JSC “TGES” passes after payment of the transaction from the moment the shares are credited to the buyer's depo account. During the negotiations, the purchase price of JSC “TGES” was determined as RUB 903,003 thousand, while RUB 3,00 thousand paid in cash and RUB 903,000 thousand by transferring property rights - rights of claim to JSC TNS Energy Tula arising from contracts for the provision of electricity transmission services. The transfer of these rights was made by a related party PJSC IDGC “Center and Volga Region” in favor of JSC “Sanatorium “Energetic”, and then by JSC “Sanatorium “Energetic” in favor of the seller of shares of JSC “TGES”

The valuation of identifiable net assets of JSC “TGES” was not completed as of the date of signing the consolidated financial statements of the Group. Thus, the fair value of the identifiable net assets can be subsequently adjusted using appropriate adjustments to the acquisition income by December 31, 2020.

(in thousands of Russian rubles, unless otherwise stated)

5 Significant subsidiaries (continued)

The table below shows the estimated deemed value of the identifiable net assets of JSC “TGES” received at the acquisition date:

	Deemed value, thousand rubles
Non-current assets	
Intangible assets	21,533
Property, plant and equipment	2,432,676
Deferred tax asset	9,398
Other non-current assets	5,802
Total non-current assets	**2,469,409**
Current assets	
Inventories	27,627
Trade and other receivables	229,944
Cash and cash equivalents	127,480
Total current assets	**385,051**
Total assets	**2,854,460**
Non-current liabilities	
Long-term borrowing	358,605
Deferred tax liabilities	22,749
Total non-current liabilities	**381,354**
Current liabilities	
Short-term borrowing	89,788
Trade and other payables	134,586
Deferred revenue	6,130
Provisions	7,147
Total current liabilities	**237,651**
Total liabilities	**619,005**
Total identifiable net assets at deemed value 100%	**2,235,455**
Identifiable net assets at deemed value in the amount of the acquired share of 69.9992%	**1,564,801**
Identifiable net assets at deemed value attributable to holders of non - controlling interests	**670,654**
Consideration transferred	**903,003**
Gain on a bargain purchase	**661,798**

Since the carrying value of 69.9992% of the identifiable net assets of JSC “TGES” exceeds the value of the consideration transferred, the Group recognized a gain on a bargain purchase (negative goodwill) in other income in the amount of RUB 661,798 thousand in the consolidated statement of profit and loss and other comprehensive income, and also reflected the non-controlling interests in the amount of RUB 670,654 thousand in the statement of financial position.

If the merger had occurred at the beginning of the year, the Group’s revenue from continuing operations would have amounted to RUB 1,366,123 thousand, and the Group’s profit from continuing operations before tax would have amounted to RUB 342,206 thousand.

The cash inflow when acquiring a company is shown in the following table:

Net cash received on the acquisition of a subsidiary	127,480
Consideration transferred	(3)
Net cash flow	**127,477**

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 Kurskenergo, branch Lipetskenergo, branch Orelenergo, branch Smolenskenergo, branch Tambovenrgo, branch Tverenergo, branch Yarenergo
- Others

The category "Other" includes operations of subsidiaries and the executive office of the Company. This category also includes JSC "VGES" and JSC "TGES" - subsidiaries, acquired in 2019. These operations do not meet quantitative criteria for their allocation to reporting 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.

(in thousands of Russian rubles, unless otherwise stated)

6 Information about segments (continued)

(a) Information about reportable segments

As at 31 December 2019 and for the year ended 31 December 2019:

	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	12,701,320	5,423,867	14,727,483	5,317,873	7,640,239	9,045,212	4,672,465	7,535,739	6,434,236	11,081,353	9,813,911	247,591	**94,641,289**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	836	655,524	**656,360**
Segment revenue	**12,701,320**	**5,423,867**	**14,727,483**	**5,317,873**	**7,640,239**	**9,045,212**	**4,672,465**	**7,535,739**	**6,434,236**	**11,081,353**	**9,814,747**	**903,115**	**95,297,649**
Including													
Electricity transmission	*12,103,586*	*5,329,457*	*14,223,274*	*5,176,081*	*7,275,968*	*8,793,516*	*4,600,634*	*7,393,403*	*6,069,040*	*10,367,111*	*9,554,604*	*647,563*	***91,534,237***
Technological connection services	*230,817*	*40,463*	*202,284*	*72,244*	*281,313*	*85,738*	*25,228*	*41,696*	*282,426*	*125,239*	*154,569*	*48,719*	***1,590,736***
Sales of electricity and capacity	-	-	-	-	-	-	-	-	-	*520,662*	-	-	***520,662***
Other revenue	*366,917*	*53,947*	*301,925*	*69,548*	*82,958*	*165,958*	*46,603*	*100,640*	*82,770*	*68,341*	*105,574*	*206,833*	***1,652,014***
Finance income	8,024	8,009	25,854	8,010	8,028	8,234	8,009	8,010	8,251	8,016	8,021	1,616	**108,082**
Finance costs	(368,725)	(97,434)	(295,917)	(112,601)	(121,339)	(295,819)	(142,305)	(340,500)	(274,899)	(674,138)	(494,284)	(17,649)	**(3,235,610)**
Depreciation and amortization	2,766,784	580,995	1,279,268	679,611	766,598	1,490,040	381,355	938,625	543,668	932,530	1,285,647	78,316	**11,723,437**
EBITDA	**3,577,294**	**849,156**	**2,719,113**	**1,084,372**	**1,362,327**	**772,503**	**601,657**	**1,377,229**	**1,461,696**	**1,636,293**	**589,857**	**255,998**	**16,287,495**

(in thousands of Russian rubles, unless otherwise stated)

6 Information about segments (continued)

As at 31 December 2019:

	Belgorod energo	**Bryansk nergo**	**Voronezh energo**	**Kostroma energo**	**Kursk energo**	**Lipetsk energo**	**Orel energo**	**Smolensk energo**	**Tambov energo**	**Tver energo**	**Yar energo**	**Others**	**Total**
Segment assets	**25,230,341**	**5,446,087**	**14,138,311**	**7,247,050**	**7,725,949**	**15,434,327**	**4,161,343**	**7,790,287**	**6,273,876**	**11,966,661**	**15,707,876**	**13,536,051**	**134,658,159**
Including property, plant and equipment and construction in progress	23,391,081	4,660,102	12,086,463	6,249,228	6,317,727	13,197,807	3,588,821	6,596,461	4,403,244	9,409,869	11,184,254	6,821,935	**107,906,995**
Capital expenditure	2,518,838	617,752	1,905,067	,829,366	850,250	667,434	424,397	917,414	511,464	1,506,746	1,085,500	236,398	**12,070,626**
Segment liabilities	3,679,254	890,063	2,650,522	1,282,088	1,136,833	2,313,454	645,349	1,030,058	924,031	2,498,155	3,091,063	51,380,675	**71,521,545**

(in thousands of Russian rubles, unless otherwise stated)

6 Information about segments (continued)

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

	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	13,202,658	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													
Electricity transmission	*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*
Technological connection services	*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*
Sales of electricity and capacity	–	–	–	–	–	–	–	–	–	*530,020*	–	–	*530,020*
Other revenue	*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**

(in thousands of Russian rubles, unless otherwise stated)

6 Information about segments (continued)

As at 31 December 2018

	Belgorod energo	Bryansk nergo	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

(in thousands of Russian rubles, unless otherwise stated)

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 2019	Year ended 31 December 2018
Segment revenues	**95,297,649**	**94,393,194**
Intersegment revenue elimination	(656,360)	(457,993)
Reclassification from other income	273	58
Revenues per consolidated statement of profit or loss and other comprehensive income	**94,641,562**	**93,935,259**

The reconciliation of reportable segment EBITDA:

	Year ended 31 December 2019	Year ended 31 December 2018
EBITDA of reportable segments	**16,287,495**	**16,764,872**
Discounting receivables	41,832	(8,444)
Adjustment for lease	430,247	1,947
Net (accrual) / recovery of impairment losses on property, plant and equipment and assets in the form of rights of use	881,180	(96,886)
Recognition of pension and other long-term liabilities to employees	1,749	355,741
Adjustment on assets related to employee benefit liability	(34,496)	7,402
Re-measurement of financial assets at fair value through other comprehensive income (transfer of revaluation to equity)	(15,357)	(1,955)
Adjustment of the value of property, plant and equipment	37,955	169
Adjustment of income from donated property, plant and equipment	(191,702)	(281,539)
Acquisition of subsidiaries	1,036,900	-
Other adjustments	458,864	460,285
EBITDA	**18,934,667**	**17,201,592**
Depreciation and amortization	(10,848,219)	(9,909,297)
Interest expenses on financial liabilities	(3,217,993)	(3,196,157)
Interest expenses of lease liabilities	(207,115)	(683)
Income tax expense	(1,508,146)	(1,099,613)
Profit for the year per consolidated statement of profit or loss and other comprehensive income	**3,153,194**	**2,995,842**

(in thousands of Russian rubles, unless otherwise stated)

6 Information about segments (continued)

The reconciliation of reportable segment total assets is presented below:

	31 December 2019	31 December 2018
Total segment assets	**134,658,159**	**123,158,300**
Intersegment balances	(1,738,738)	(46,885)
Intragroup financial assets	(2,453,197)	(16,295)
Adjustment for value of property, plant and equipment	(14,446,801)	(14,021,211)
Impairment of property, plant and equipment and right-of-use assets	881,180	(96,886)
Recognition of right-of-use assets	2,808,335	-
Assets related to employee benefits	514,585	549,081
Adjustment for deferred tax assets	(1,847,040)	(1,390,413)
Discounting of accounts receivables	(43,446)	(85,278)
Other adjustments	63,382	75,052
Total assets per consolidated statement of financial position	**118,396,419**	**108,125,465**

The reconciliation of reportable segment total liabilities is presented below:

	31 December 2019	31 December 2018
Total segment liabilities	**71,521,545**	**64,225,589**
Intersegment balances	(1,738,738)	(46,885)
Adjustment for deferred tax liabilities	(3,220,973)	(2,741,406)
Recognition of pension and other long-term liabilities to employees	2,996,844	1,950,777
Recognition of lease obligations	2,861,862	-
Other adjustments	(111,277)	(125,584)
Total liabilities per consolidated statement of financial position	**72,309,263**	**63,262,491**

(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 2019 and 31 December 2018, 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, Orelenergo, Smolenskenergo, Tverenergo and Yarenergo.

The total revenue received from PJSC "TNS energo" was RUB 17,581,800 thousand or 19% of the Group's total revenue for 2019 (2018: RUB 17,712,342 thousand or 19%). The total revenue received from JSC "Atomenergosbyt" was RUB 19,453,998 thousand or 21% of the Group's total revenue for 2019 (2018: RUB 19,619,968 thousand or 21%).

(in thousands of Russian rubles, unless otherwise stated)

7 Revenue

	Year ended 31 December 2019	Year ended 31 December 2018
Electricity transmission	90,886,674	90,015,407
Technological connection services	1,590,650	1,864,773
Sales of electricity and capacity	520,662	530,020
Other revenue	1,608,628	1,483,296
Lease revenue	34,948	41,763
	94,641,562	**93,935,259**

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 2019 in the amount of RUB 111,289 thousand (for year ended 31 December 2018: RUB 191,561 thousand).

8 Other income

	Year ended 31 December 2019	Year ended 31 December 2018
Income from identified non-contracted electricity consumption	136,258	95,009
Income in the form of fines and penalties on commercial contracts	658,826	632,397
Write-off of accounts payable	78,719	99,213
Income from compensation for losses in connection with the disposal / liquidation of power grid assets	108,179	30,508
Acquisition of subsidiaries	1,036,900	-
Other income	496,014	498,976
	2,514,896	**1,356,103**

9 Other expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Loss on disposal of property, plant and equipment and construction in progress	(578,245)	(53,483)
	(578,245)	**(53,483)**

(in thousands of Russian rubles, unless otherwise stated)

11 Operating expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Personnel costs	19,415,780	19,261,323
Depreciation of fixed assets, right-of-use assets and intangible assets	10,848,219	9,909,297
Material expenses, including:		
Electricity for compensation of losses	15,201,311	15,039,054
Electricity for sale	451,165	465,997
Purchased electricity and heat power for own needs	403,839	408,743
Other material costs	3,086,835	3,207,860
Production work and services, including:		
Electricity transmission services	30,464,735	30,524,733
Repair and maintenance services	552,082	546,572
Other works and industrial services	588,620	781,020
Taxes and levies other income tax	2,104,153	1,903,864
Rent	2,419	520,383
Insurance	140,441	145,732
Other third-party services, including:		
Communication services	289,457	278,216
Security services	305,015	306,096
Consulting, legal and audit services	40,161	30,772
Software costs and services	276,679	325,194
Transportation services	38,149	68,374
Other services	918,828	839,865
Provisions	1,676,637	548,079
Debt settlement for electricity transmission, electricity for resale, purchased electricity to compensate for losses and non-contracted consumption	606,415	852,598
Other expenses	1,099,150	1,264,291
	88,510,090	**87,228,063**

12 Personnel costs

	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries	12,489,249	12,567,674
Social security contributions	4,334,907	4,308,608
Provisions related to employee benefits	1,407,343	1,430,875
Expenses/(income) related to defined benefit plan	43,345	(293,012)
Other	1,140,936	1,247,178
	19,415,780	**19,261,323**

(in thousands of Russian rubles, unless otherwise stated)

12 Personnel costs (continued)

The amount of contributions to the defined contribution plan was RUB 24,009 thousand for the year ended 31 December 2019 (for the year ended 31 December 2018: RUB 23,098 thousand).

Remuneration to key management personnel is disclosed in the Note 36.

13 Finance income and costs

	Year ended 31 December 2019	Year ended 31 December 2018
Finance income		
Interest income on bank deposits and balances on bank accounts	90,466	53,468
Dividends receivable	14,651	14,419
Other finance income	41,832	57,390
	146,949	**125,277**
Finance costs		
Interest expenses on financial liabilities measured at amortized cost	(3,217,993)	(3,196,157)
Interest expenses on lease liabilities	(207,115)	(683)
Interest expense on long-term employee benefit liability	(152,525)	(165,307)
Other finance costs	(25,494)	(43,729)
	(3,603,127)	**(3,405,876)**

14 Income tax

	Year ended 31 December 2019	Year ended 31 December 2018
Current income tax		
Accrual of current tax	(1,598,489)	(1,351,399)
Adjustment of the tax for the previous periods	24,566	236,864
Total	**(1,573,923)**	**(1,114,535)**
Deferred income tax		
Accrual and reversal of temporary differences	65,777	14,922
Total	**65,777**	**14,922**
Income tax expense	**(1,508,146)**	**(1,099,613)**

In 2019 and 2018, 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 24,566 thousand in accordance with the updated tax returns submitted to the tax authorities (2018: RUB 236,864 thousand for extra charge).

(in thousands of Russian rubles, unless otherwise stated)

14 Income tax (continued)

Income tax recognized in other comprehensive income:

	Year ended 31 December 2019			**Year ended 31 December 2018**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Financial assets at fair value through other comprehensive income	15,357	(3,071)	12,286	1,955	(391)	1,564
Remeasurements of the defined benefit liability	(1,047,816)	171,067	(876,749)	125,617	(7,731)	117,886
	(1,032,459)	**167,996**	**(864,463)**	**127,572**	**(8,122)**	**119,450**

In 2019 and 2018 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 2019	**%**	**Year ended 31 December 2018**	**%**
Profit before income tax	**4,661,340**	**100**	**4,095,455**	**100**
Income tax calculated at the applicable tax rate	**(932,268)**	**(20)**	**(819,091)**	**(20)**
Tax effect of items not deductible/not taxable for taxation purposes	(600,444)	(13)	(517,386)	(13)
Adjustments for prior years	24,566	1	236,864	6
	(1,508,146)	**(32)**	**(1,099,613)**	**(27)**

(in thousands of Russian rubles, unless otherwise stated)

15 Property, plant and equipment

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/deemed cost						
At 1 January2018	**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	**(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	**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**

(in thousands of Russian rubles, unless otherwise stated)

15 Property, plant and equipment (continued)

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Construction progress	Total
Cost/deemed cost						
At 1 January 2019	**38,274,038**	**68,988,195**	**39,527,879**	**24,088,027**	**3,867,435**	**174,745,574**
Reclassification between groups	(456)	366	(1,665)	1,755	-	-
Additions	-	14,065	206	2,532	12,048,284	12,065,087
Acquisition of subsidiaries	2,843,680	501,954	338,142	476,968	55,995	4,216,739
Transfer	2,053,498	4,719,643	2,028,906	2,652,185	(11,454,232)	-
Disposals	(6,093)	(19,306)	(21,638)	(276,240)	(672,273)	(995,550)
At 31 December 2019	**43,164,667**	**74,204,917**	**41,871,830**	**26,945,227**	**3,845,209**	**190,031,850**
Accumulated depreciation and impairment						
At 1 January 2019	**(16,001,193)**	**(36,857,256)**	**(18,475,981)**	**(15,462,222)**	**(88,619)**	**(86,885,271)**
Reclassification between groups	-	21	(22)	1	-	-
Transfer to property, plant and equipment (transfer of impairment losses)	(1,943)	(4,555)	(2,244)	(2,722)	11,464	-
Depreciation charge	(1,630,167)	(4,218,805)	(2,150,024)	(2,024,397)	-	(10,023,393)
Disposals	3,100	12,598	14,209	249,817	29,104	308,828
(Impairment)/reversal of impairment	1,063,945	(504,558)	436,096	(81,524)	(32,779)	881,180
At 31 December 2019	**(16,566,258)**	**(41,572,555)**	**(20,177,966)**	**(17,321,047)**	**(80,830)**	**(95,718,656)**
Net book value						
At 1 January 2019	**22,272,845**	**32,130,939**	**21,051,898**	**8,625,805**	**3,778,816**	**87,860,303**
At 31 December 2019	**26,598,409**	**32,632,362**	**21,693,864**	**9,624,180**	**3,764,379**	**94,313,194**

(in thousands of Russian rubles, unless otherwise stated)

15 Property, plant and equipment (continued)

As at 31 December 2019 advance payments for property, plant and equipment include in construction in progress in the amount of RUB 152,203 thousand (as at 31 December 2018: RUB 174,637 thousand), also materials for the construction of property, plant and equipment in the amount RUB of 671,712 thousand (as at 31 December 2018: RUB 579,422 thousand).

For the year ended 31 December 2019 capitalized interest amount is RUB 157,510 thousand (for the year ended 31 December 2018: RUB 187,985 thousand), the capitalization rate used to determine the amount of borrowing costs to be capitalized was 7.51-8.50% during the year (for the year ended 31 December 2018 – 8.07-9.42%).

Depreciation charges were capitalized in the value of capital construction in the amount of RUB 24,117 thousand for the year ended 31 December 2019 (2018: RUB 39,827 thousand).

As at December 31 2019 fixed assets in the amount of RUB 38,173 thousand under a loan agreement with PJSC VTB Bank (at 31 December 2018 no fixed assets are pledged as collateral for borrowed funds).

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 2019. 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 2019 and as at 31 December 2018 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 2020-2024 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 2020;
- tariffs for electricity transmission services for forecasted period (after 2020) 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 before 2024. Tariffs growth rates in 2020-2024 are restricted by inflation rates according to Ministry of Economic Development of the Russian in the amount 4%;
- Table 1 tariff growth Rates in 2020-2024

Name	2020	2021	2022	2023	2024
Inflation taken into account	1.038	1.040	1.040	1.040	1.040

- forecasted electricity transmission volumes for all CGUs were determined based on the Company's business plans for 2020-2024.

The cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 9.03% (2018: 10.00%).

The long- term growth rate in the post- forecast period was 4.00%.

(in thousands of Russian rubles, unless otherwise stated)

15 Property, plant and equipment (continued)

An impairment loss was recognized as a result of testing on Tverenergo in the amount of RUB 3,462,079 thousand, on Yarenergo in the amount of RUB 519,897 thousand and reversal of a previously recognized impairment loss on Belgorodenergo in the amount of RUB 3,313,948 thousand, on Lipetskenergo in the amount of RUB 1,549,208 thousand.

The main factor in the reversal of impairment in Belgorodenergo is an additional increase in the tariff base in 2019: tariffs were set exceeding the limit levels by 4%. The main factor in the reversal of impairment in Lipetskenergo is the increase in the value of cash flows in the forecast period, due to the growth of its own NVV branch in 2020, by taking into account adjustments made in respect of past years. The impairment in Tverenergo was affected by a decrease in its own NVV branch in 2020, due to the absence of tariff growth for the next calendar year. In addition, the situation was aggravated by a decrease in the tariff base in 2019, when the single (boiler) tariffs for other consumers were reduced by 2%. The main impairment factor for the Yarenergo is a decrease in the volume of electricity transmission services rendered, taking into account the dynamics of 2019.

Branch	Balance of impairment 31.12.2018	Depreciation and disposal for the period 2019	Accrued impairment in 2019	Reversal impairment in 2019	Balance of impairment 31.12.2019
Belgorodenergo	5,472,462	(599,907)	-	(3,313,948)	1,558,607
Lipetskenergo	1,741,268	(192,060)	-	(1,549,208)	-
Tverenergo	-	-	3,462,079	-	3,462,079
Yarenergo	-	-	519,897	-	519,897
	7,213,730	**(791,967)**	**3,981,976**	**(4,863,156)**	**5,540,583**

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- Quantitative information about significant unobservable input data used in assessing the value in use as of December 31, 2019 is disclosed below:
- Table 2 Quantitative information on significant unobservable baseline data as at 31 December 2019

Indicators	2019	2020	2021	2022	2023	2024
Branch rate without TCO, with losses and FSK						
Belgorodenergo	186.48	194.92	196.23	203.49	210.99	218.78
Lipetskenergo	148.84	155.58	164.95	167.66	169.07	172.69
Tverenergo	179.99	172.09	165.32	169.28	166.68	167.86
Yarenergo	132.42	136.41	141.43	144.89	145.79	149.07
Boiler productive supply, million kW*h.						
Belgorodenergo	6 395.29	6 262.34	6 363.73	6 365.89	6 369.92	6 373.99
Lipetskenergo	4 607.33	4 629.38	4 506.12	4 590.36	4 713.89	4 778.98
Tverenergo	4 688.72	4 692.36	5 148.41	5 174.67	5 224.32	5 336.54
Yarenergo	5 960.69	5 992.87	6 018.08	6 079.29	6 139.18	6 201.09
Growth rate of revenue from e/e transmission						
Belgorodenergo	-1.87%	2.35%	2.31%	3.74%	3.75%	3.76%
Lipetskenergo	1.10%	5.03%	3.20%	3.54%	3.55%	3.56%
Tverenergo	3.58%	-4.31%	5.40%	2.92%	-0.59%	2.87%
Yarenergo	-1.04%	3.57%	4.12%	3.49%	1.61%	3.29%
Инвестиции (освоение) всего (без НДС)						
Belgorodenergo	2,748,984	2,241,556	2,169,476	2,089,927	2,690,934	2,389,755
Lipetskenergo	1,228,321	715,203	1,166,647	1,165,935	1,708,749	1,707,575
Tverenergo	1,528,380	2,204,341	345,783	122,701	1,567,274	1,792,224
Yarenergo	1,097,628	1,002,936	1,429,254	1,547,205	1,350,871	1,138,885

(in thousands of Russian rubles, unless otherwise stated)

15 Property, plant and equipment (continued)

Table 3 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 1%	-15,70	23,45
Change NVV to the base value in each period by 3%	22,07	-22,07
Change in the growth rate of net cash flow in the post-forecast period by 1%	18,88	-12,62
Change in the level of operating expenses by 5%	-31,65	31,65
Change in the level of investment (capital investment) by 10%	-2,58	2,58
Change in net output in each period by 0.5%	3,68	-3,68

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

Name	Increase, %	Decrease, %
Change the discount rate by 1%	-17,28	25,82
Change NVV to the base value in each period by 3%	20,71	-20,71
Change in the growth rate of net cash flow in the post-forecast period by 1%	20,81	-13,91
Change in the level of operating expenses by 5%	-29,54	29,39
Change in the level of investment (capital investment) by 10%	-2,27	2,27
Change in net output in each period by 0.5%	3,45	-3,45

Table 5 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 1%	-18,63	27,86
Change NVV to the base value in each period by 3%	74,09	-74,66
Change in the growth rate of net cash flow in the post-forecast period by 1%	22,53	-15,06
Change in the level of operating expenses by 5%	-118,82	117,26
Change in the level of investment (capital investment) by 10%	-7,84	7,84
Change in net output in each period by 0.5%	12,35	-12,35

Table 6 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 1%	-12,55	18,34
Change NVV to the base value in each period by 3%	37,68	-37,68
Change in the growth rate of net cash flow in the post-forecast period by 1%	14,02	-9,37
Change in the level of operating expenses by 5%	-58,31	58,31
Change in the level of investment (capital investment) by 10%	-1,90	1,90
Change in net output in each period by 0.5%	6,28	-6,28

(in thousands of Russian rubles, unless otherwise stated)

15 Property, plant and equipment (continued)

Table 7 The sensitivity of the value of the use of fixed assets of the Company

Name	Increase, %	Decrease, %
Change the discount rate by 1%	-16,04	23,87
Change NVV to the base value in each period by 3%	38,64	-38,78
Change in the growth rate of net cash flow in the post-forecast period by 1%	19,06	-12,74
Change in the level of operating expenses by 5%	-59,58	59,15
Change in the level of investment (capital investment) by 10%	-3,65	3,65
Change in net output in each period by 0.5%	6,44	-6,44

The sensitivity analysis for the material assumptions that are used to build the impairment models for IDGC of Centre's EGDS as of December 31, 2019 is presented below:

- increase the discount rate to 10%:
  - results in an impairment loss for Tverenergo in the amount of RUB 4,170,153 thousand;
  - results in an impairment loss for Yarenergo in the amount of RUB 1,792,622 thousand;
- reduction of the required gross revenue to the base value in each period by 3%:
  - results in an impairment loss for Tverenergo in the amount of RUB 7,079,457 thousand;
  - results in an impairment loss for Yarenergo in the amount of RUB 4,430,287 thousand;
- increase the level of operating expenses to the base value in each period by 5%:
  - results in an impairment loss for Belgorodenergo in the amount of RUB 725,111 thousand;
  - results in an impairment loss for Tverenergo in the amount of RUB 7,704,412 thousand;
  - results in an impairment loss for Yarenergo in the amount of RUB 6,595,960 thousand;
- increase in the level of capital investments in the forecast and post-forecast period by 10%:
  - results in an impairment loss for Tverenergo in the amount of RUB 3,868,916 thousand;
  - results in an impairment loss for Yarenergo in the amount of RUB 719,193 thousand;
- decrease in the growth rate of net cash flow in the post-forecast period by 1%:
  - results in an impairment loss for Tverenergo in the amount of RUB 3,984,761 thousand;
  - results in an impairment loss for Yarenergo in the amount of RUB 1,458,493 thousand;
- reduction in net output in each period by 0.5%:
  - results in an impairment loss for Tverenergo in the amount of RUB 3,844,171 thousand;
  - results in an impairment loss for Yarenergo in the amount of RUB 1,134,161 thousand.

(in thousands of Russian rubles, unless otherwise stated)

16 Intangible assets

	Software	R&D	Other intangible assets	Total
Initial cost				
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 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)**
Initial cost				
At 1 January 2019	**2,336,066**	**35,516**	**1,310,223**	**3,681,805**
Additions	200,807	48,619	1,106	250,532
Disposals	(273,798)	-	(12)	(273,810)
At 31 December 2019	**2,263,075**	**84,135**	**1,311,317**	**3,658,527**
Accumulated amortization and impairment				
At 1 January 2019	**(655,729)**	**–**	**(241,682)**	**(897,411)**
Amortization charge	(473,964)	–	(78,785)	(552,749)
Disposals	267,748	–	-	267,748
At 31 December 2019	**(861,945)**	**–**	**(320,467)**	**(1,182,412)**
Net book value				
At 1 January 2019	**1,680,337**	**35,516**	**1,068,541**	**2,784,394**
At 30 September 2019	**1,401,130**	**84,135**	**990,850**	**2,476,115**

Amortization of intangible assets included in operating expenses in consolidated statement of profit or loss and other comprehensive income is RUB 552,749 thousand (for the year ended 31 December 2018: RUB 501,382 thousand).

Capitalized interest is absent for the year ended 31 December 2019 and 31 December 2018.

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

Intangible assets in the subgroup "Other intangible assets", the Group included the right to charge users of electricity transmission services under the "Concession agreement regarding the financing, creation and operation of electric energy transmission and distribution facilities in the Tambov Region". This agreement provides for the construction by the Group of facilities for the transmission and distribution of electricity in the Tambov region and the provision of services for the transmission, distribution of electricity and technological connection using the facilities of the concession agreement. The ownership of the constructed facilities belongs to the Tambov region, and the Group receives the right possession and use of objects for

(in thousands of Russian rubles, unless otherwise stated)

16 Intangible assets (continued)

use in the specified activity. The concession agreement was concluded in 2015 for 20 years. A concession agreement may be amended or terminated by agreement of the parties in the manner and in the cases provided for by law, upon the expiration of the validity period, as well as on the basis of a court decision. The objects of the concession agreement shall be included in the planning document for the privatization of property for a period corresponding to the expiration of the concession agreement. Moreover, the Group has a preemptive right to repurchase these objects.

During the period of the Concession Agreement, the administration of the Tambov Region may provide the Group with subsidies both in terms of paying remuneration for construction and in compensating for lost revenue from electricity transmission. In 2019, the Group received a subsidy in the amount of payment of remuneration for construction in the amount of RUB 50,847 thousand excluding VAT, which is reflected in other income (in 2018: in the amount of RUB 50,847 thousand, excluding VAT).

The residual value of the objects of the concession agreement as at 31 December 2019 in the amount of RUB 878,340 thousand is reflected in the line "Intangible assets" of the consolidated statement of financial position (in the amount of RUB 933,203 thousand as at 31 December 2018). For the year ended 31 December 2019 depreciation was accrued on the objects of the concession agreement in the amount of RUB 54,863 thousand (for the year ended 31 December 2018: RUB 54,863 thousand).

17 Right-off-use assets

	Land and buildings	Electricity transmission networks	Equipment for electricity transmission	Other	Total
Initial cost					
At 1 January 2019	**2,071,525**	**121,286**	**81,312**	**29,453**	**2,303,576**
Reclassification between groups	-	(156)	(113)	269	-
Additions	1,368,027	18,501	4,263	23	1,390,814
Change in lease terms	(516,829)	1,922	(5,908)	(178)	(520,993)
Disposal or termination of lease agreements	(166,919)	(402)	(1,108)	(17,587)	(186,016)
At 31 December 2019	**2,755,804**	**141,151**	**78,446**	**11,980**	**2,987,381**
Accumulated depreciation and impairment					
At 1 January 2019	-	-	-	-	-
Depreciation charge	(252,458)	(26,142)	(14,841)	(2,753)	(296,194)
Change in lease terms	1,260	39	1,033	105	2,437
Disposal or termination of lease agreements	114,247	21	88	355	114,711
At 31 December 2019	**(136,951)**	**(26,082)**	**(13,720)**	**(2,293)**	**(179,046)**
Net book value					
At 1 January 2019	**2,071,525**	**121,286**	**81,312**	**26,569**	**2,300,692**
At 31 December 2019	**2,618,853**	**115,069**	**64,726**	**9,687**	**2,808,335**

(in thousands of Russian rubles, unless otherwise stated)

17 Right-off-use assets (continued)

The value of right-off-use assets in the initial cost as at 01 January 2019 includes a number of objects received under financial lease (leasing) agreements. As at 31 December 2018 the residual value of such facilities amounted to RUB 2,884 thousand.

For the purpose of the impairment test, specialized right-off-use assets (including leased land plots under own and leased specialized facilities) are classified as CGU assets similarly to their non-current assets - based on the geographical location of the branches. The value in use of such assets in the form of a right of use as at 31 December 2019 was determined using the discounted cash flow method.

Impairment testing information is disclosed in Note 15.

18 Other financial assets

	31 December 2019	31 December 2018
Financial assets at fair value through other comprehensive income	207,257	191,900
	207,257	**191,900**

Finance assets at fair value through other comprehensive income as at 31 December 2019 and as at 31 December 2018 include shares of PJSC "Unipro", PJSC "IDGC of Centre and Volga region", PJSC "FGC UES'. Fair value of these investments is RUB 207,257 thousand and RUB 191,900 thousand respectively.

19 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 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Property, plant and equipment	–	–	(6,309,880)	(6,244,062)	(6,309,880)	(6,244,062)
Intangible assets	–	–	(25,190)	(25,823)	(25,190)	(25,823)
Right-off-use assets	–		(561,667)	-	(561,667)	-
Assets related to employee defined benefits plans	–	–	(102,917)	(109,816)	(102,917)	(109,816)
Trade and other receivables	901,781	784,690	-	–	901,781	784,690
Lease obligations	576,121				576,121	-
Loan and borrowings	-	–	(2,302)	(3,646)	(2,302)	(3,646)
Provisions	450,305	162,586	-	–	450,305	162,586
Employee benefits	345,516	182,016	-	–	345,516	182,016
Trade and other payables	194,313	168,614	(5,797)	–	188,516	168,614
Other	2,307	2,696	(506)	(46,536)	1,801	(43,840)
Net tax assets/(liabilities)	2,470,343	1,300,602	(7,008,259)	(6,429,883)	(4,537,916)	(5,129,281)

(in thousands of Russian rubles, unless otherwise stated)

19 Deferred tax assets and liabilities (continued)

(b) Movement in temporary differences during the year

	1 January 2019	Acquisition of subsidiaries / Application of IFRS 16 Leases	Recognized in profit and loss	Recognized in other comprehensive income	31 December 2019
Property, plant and equipment	(6,244,062)	357,592	(423,410)	-	(6,309,880)
Intangible assets	(25,823)	-	633	-	(25,190)
Right-off-use assets	-	(460,138)	(101,529)	-	(561,667)
Assets related to employee defined benefits plans	(109,816)	-	6,899	-	(102,917)
Financial assets at fair value through other comprehensive income	–	-	3,071	(3,071)	-
Trade and other receivables	784,690	7,070	110,021	-	901,781
Lease liabilities		456,501	119,620	-	576,121
Loan and borrowings	(3,646)	-	1,344	-	(2,302)
Provisions	162,586	-	287,719	-	450,305
Employee benefits	182,016	-	(7,567)	171,067	345,516
Trade and other payables	168,614	-	19,902	-	188,516
Other	(43,840)	(3,433)	49,074	-	1,801
	(5,129,281)	**357,592**	**65,777**	**167,996**	**(4,537,916)**

	1 January 2018	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	663,049	121,641	–	784,690
Loan 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)**

(in thousands of Russian rubles, unless otherwise stated)

20 Inventories

	31 December 2019	31 December 2018
Raw materials and supplies	1,339,904	1,484,993
Allowance for impairment of raw materials and supplies	(258)	(161)
Other inventories	1,342,478	1,250,611
	2,682,124	**2,735,443**

The Group had no reserves that would have been pledged under credit or other contracts as at 31 December 2019 and 31 December 2018. The Group has included spare parts, fuel and work in progress in other inventories.

21 Trade and other receivables

	31 December 2019	31 December 2018
Non-current trade and other account receivable		
Trade receivables	31,937	417,928
Other receivables	96,201	157,521
	128,138	**575,449**
Current trade and other account receivable		
Trade receivables	23,301,335	22,752,087
Allowance for expected credit losses on trade receivables	(10,854,477)	(11,549,586)
Other receivables	2,135,540	1,454,604
Allowance for expected credit losses on other receivables	(1,610,533)	(974,448)
	12,971,865	**11,682,657**

Long-term other receivables include restructured receivables under the assignment agreement in the total amount of RUB 188,135 thousand as at 31 December 2019 (as at 31 December 2018: RUB 219,491 thousand). The terms of the agreement provide for the repayment of receivables in 2019-2024 and the application of the interest rate of 12.44% per annum.]

The Group’s exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in Note 33.

Balance with related parties is disclosed in Note 36.

22 Advances given and other assets

	31 December 2019	31 December 2018
Non-current		
Advances given	2,801	9,813
	2,801	**9,813**
Current		
Advances given	229,081	176,447
Advances given impairment allowance	(16,266)	(15,165)
VAT recoverable	18,364	9,950
VAT on advances to customers and clients and advances given for the purchase of property, plant and equipment	488,307	373,413
Prepaid taxes, other than income tax and VAT	35,604	25,371
	755,090	**570,016**

Balance with related parties is disclosed in Note 36.

(in thousands of Russian rubles, unless otherwise stated)

23 Cash and cash equivalents

	31 December 2019	31 December 2018
Cash in bank accounts and cash on hand	1,146,108	787,053
Cash equivalents	371,000	-
	1,517,108	**787,053**

	Rating	Rating agency	31 December 2019	31 December 2018
PJSC «Sberbank of Russia"*	Baa3	Moody's	223,623	37,782
JSC "Bank GPB"*	Ba1	Moody's	47,406	34,204
PJSC "VTB bank"*	Baa3	Moody's	87,120	684,040
JSC "Alfa-Bank"	Ba1	Moody's	12,138	49
JSC "AB Rossia"	ruAA	Эксперт РА	736,145	58
PJSC "Promsvyazbank"	Ba3	Moody's	4,060	29
PJSC "Rosbank"	Baa3	Moody's	35,108	30,719
PJSC "Sovkombank"	Ba2	Moody's	1	–
Cash on hand			507	172
			1,146,108	**787,053**

***** State-controlled banks

•

Cash equivalents include short-term investments in bank deposits and bonds.

Deposits:

	Rating	Rating agency	31 December 2019	31 December 2018
PJSC Russian Agricultural Bank*	Ba1	Moody's	77,000	-
			77,000	**-**

Bonds:

	Rating	Rating agency	31 December 2019	31 December 2018
PJSC "VTB bank"*	Baa3	Moody's	294,000	-
			294,000	-

All balance of cash and cash equivalents are denominated in rubles as at 31 December 2019 and 31 December 2018.

As at 31 December 2019, the balance on the current account with JSC "AB Russia" in the amount of RUB 696,000 thousand represents cash in the form of a non-reducible balance at 6% per annum (2018: none).

As at 31 December 2019 deposits were placed in PJSC Russian Agricultural Bank at 5.05 - 5.93 %% per annum (2018: none).

Financial assets measured at amortized cost as at 31 December 2019 are interest note of JSC AB Russia with an original maturity of less than three months and an interest rate of 5.85% per annum, which is recorded on the balance sheet of JSC VGES.

24 Equity

	Ordinary shares	
	31 December 2019	**31 December 2018**
Per 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

(a) 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.

Holders of ordinary shares have the right to vote on all issues on the agenda at the General Meetings of Shareholders of the Company, to receive dividends in the manner specified by the legislation of the Russian Federation and the Charter of the company, as well as other rights provided for by the Charter and legislation of the Russian Federation.

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.

At the annual general meeting of shareholders held on 30 May 2019 dividends for 2018 were declared in the amount of RUB 876,162 thousand. The amount of dividends was RUB 0.02075333 per one ordinary share.

At the extraordinary general meeting of shareholders held on 30 December 2019 dividends for the first 9 months of fiscal year 2019 were declared in the amount of 847,099 thousand and on the payment of dividends for the first 9 months of 2019 in the amount of 0.0200649 rubles per ordinary share of the Company in cash.

In 2019, The Company recovered unclaimed dividends for 2015 in the amount of RUB 5,208 thousand (in 2018 – the amount of RUB 7,548 thousand for 2014).

25 Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2019 was based on the earnings attributable to ordinary shareholders for 2019 in the amount of RUB 3,081,725 thousand (for 2018: earnings of RUB 2,935,245 thousand), and a weighted average number of ordinary shares outstanding of 42,218 million in 2019 (for 2018: 42,218 million).

The Company has no dilutive financial instruments.

In millions of shares	**2019**	**2018**
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 2019	**Year ended 31 December 2018**
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	3,081,725	2,935,245
Earnings per ordinary share (in RUB) – basic and diluted	**0.073**	**0.070**

(in thousands of Russian rubles, unless otherwise stated)

26 Borrowed funds

	31 December 2019	31 December 2018
Non-current liabilities		
Secured loans and borrowings	358,681	-
Unsecured loans and borrowings	26,533,899	25,098,458
Unsecured bonds	10,107,840	15,290,522
Lease liabilities	2,880,604	-
Less: current portion of long-term loans and borrowings	(119,611)	(1,013,458)
Less: current portion of long-term bonds	(119,350)	(10,298,596)
Less: current portion of long-term lease liabilities	(318,088)	-
	39,323,975	**29,076,926**
Current liabilities		
Unsecured loans and borrowings	89,712	-
Current portion of long-term loans and borrowings	6,641,791	1,013,458
Current portion of long-term bonds	119,350	10,298,596
Current portion of long-term lease liabilities	318,088	696
	7,168,941	**11,312,750**
Including:		
Debts on interest payable on loans and borrowings	22,317	13,458
Debts on interest payable on bonds	119,350	308,750
	141,667	**322,208**

All balance of loans and borrowings are denominated in rubles as at 31 December 2019 and 31 December 2018.

(in thousands of Russian rubles, unless otherwise stated)

26 Borrowed funds (continued)

	Year of maturity	Effective interest rate 31.12.2019	Effective interest rate 31.12.2018	Carrying value 31 December 2019	Carrying value 31 December 2018
Unsecured borrowed funds					
Unsecured loans*	2021-2021	7.49% - 7.49%	7.49% - 9.80%	4,000,000	5,585,000
Unsecured loans*	2020-2022	7.40% - 7.50%	7.40% - 7.49%	15,066,013	14,508,889
Unsecured loans*	2022-2022	KR CB RF+1.25%	-	1,227,876	-
Unsecured loans*	2022-2022	KR CB RF +1.10%	-	1,000,604	-
Unsecured loans*	2022-2022	KR CB RF +1.12%	-	500,303	-
Unsecured loans*	2020-2020	KR CB RF +2.00%	-	89,712	-
Unsecured loans*	-		7.60% - 7.60%	-	3,003,748
Unsecured loans*	2020-2021	KR CB RF +1.20%	-	8,009,797	-
Unsecured loans*	2021-2021	KR CB RF +0.98%	-	1,251,486	-
Unsecured loans	2020-2020	7.34% - 7.34%	7.49% - 7.49%	2,000,000	2,000,821
				33,145,791	**25,098,458**
Secured borrowed funds					
Secured loans*	2022-2022	KR CB RF +1.50%	-	**358,681**	**-**
Unsecured bonds					
Unsecured bonds	2021 –2022	6.85% - 6.95%	6.95% - 11.58%	10,107,840	15,290,522
				10,107,840	**15,290,522**
Lease liabilities					
Lease liabilities	2020–2068	7.48% - 12.76%	42.31% - 42.31%	2,880,604	696
Total liabilities				**46,492,916**	**40,389,676**

* Loans and borrowings received from companies related to the state

All balances of borrowed funds are denominated in rubles as at 31 December 2019 and 31 December 2018.

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 33.

(in thousands of Russian rubles, unless otherwise stated)

27 Changes in liabilities arising from financial activities

	Borrowed funds				
	Long-term part	**Short-term part**	**Interest on financial liabilities, other than leases**	**Lease liabilities**	**Dividends payable**
As at 1 January 2019	**29,076,926**	**10,989,846**	**322,208**	**696**	**43,154**
Changes in cash flows from financial activities					
Proceeds from borrowed funds	23,083,559	12,305,994	-	-	-
Repayment of borrowed funds	(6,641,780)	(25,805,994)	-	-	-
Lease payment	-	-	-	(205,588)	-
Interest paid (operating activities, reference)	-	-	(3,556,181)	-	-
Dividends paid	-	-	-	-	(882,465)
Total	**16,441,779**	**(13,500,000)**	**(3,556,181)**	**(205,588)**	**(882,465)**
Non-cash transactions					
Reclassification	(9,119,535)	9,119,535	-	-	-
Capitalize interest	-	-	157,510	-	-
Interest expense	-	-	3,217,993	-	-
Additions from lease agreements	-	-	-	3,673,319	-
Dividends accrued	-	-	-	-	1,740,411
Discounting	3,684	10,154	-	-	-
Other changes, net	358,605	(61)	137	(587,823)	(5,208)
Total	**(8,757,246)**	**9,129,628**	**3,375,640**	**3,085,496**	**1,735,203**
As at 31 December 2019	**36,761,459**	**6,619,474**	**141,667**	**2,880,604**	**895,892**

(in thousands of Russian rubles, unless otherwise stated)

27 Changes in liabilities arising from financial activities (continued)

	Borrowed funds				
	Long-term part	**Short-term part**	**Interest on financial liabilities, other than leases**	**Lease liabilities**	**Dividends payable**
As at 1 January 2018	**33,988,515**	**7,198,832**	**291,031**	**2,288**	**39,896**
Changes in cash flows from financial activities					
Proceeds from borrowed funds	53,074,573	50,989,311	-	-	-
Repayment of borrowed funds	(47,000,000)	(58,189,311)	-	-	-
Lease payment	-	-	-	(1,592)	-
Interest paid (operating activities, reference)	-	-	(3,352,965)	(683)	-
Dividends paid	-	-	-	-	(868,222)
Total	**6,074,573**	**(7,200,000)**	**(3,352,965)**	**(2,275)**	**(868,222)**
Non-cash transactions					
Reclassification	(10,988,515)	10,988,515	-	-	-
Capitalize interest	-	-	187,985	-	-
Interest expense	-	-	3,196,157	-	-
Additions from lease agreements	-	-	-	683	-
Dividends accrued	-	-	-	-	879,028
Discounting	2,353	2,499	-	-	-
Other changes, net	-	-	-	-	(7,548)
Total	**(10,986,162)**	**10,991,014**	**3,384,142**	**683**	**871,480**
As at 31 December 2018	**29,076,926**	**10,989,846**	**322,208**	**696**	**43,154**

(in thousands of Russian rubles, unless otherwise stated)

28 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.

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

	31 December 2019	31 December 2018
Present value of post-employment benefits obligation	2,996,844	1,950,777
Total present value of employee benefit obligation	**2,996,884**	**1,950,777**

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

	Year ended 31 December 2019	Year ended 31 December 2018
Value of assets at 1 January	**549,081**	**541,679**
Employer contributions	113,631	164,363
Other movements in the accounts	(16,329)	(16,784)
Payments of remuneration	(131,798)	(140,177)
Value of assets at 31 December	**514,585**	**549,081**

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.

(in thousands of Russian rubles, unless otherwise stated)

28 Employee benefits (continued)

Movements in the present value of defined benefit liabilities:

	Year ended 31 December 2019		Year ended 31 December 2018	
	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	**1,950,777**	**-**	**2,432,135**	**-**
Current service cost	43,345	-	64,312	-
Past service cost and sequestration	-	-	(357,324)	-
Interest expense	152,525	-	165,307	-
Remeasurement effect from:				
- (gain)/loss from change in demographic actuarial assumptions	234,871	-	45,898	-
- (gain)/loss from change in financial actuarial assumptions	614,312	-	(335,660)	-
- (gain)/loss arising from experience adjustment	198,633	-	164,145	-
Contributions to the plan	(197,619)	-	(228,036)	-
Defined benefit plan obligations as at 31 December	**2,996,844**	**-**	**1,950,777**	**-**

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

	Year ended 31 December 2019	Year ended 31 December 2018
Employees service cost	43,345	(293,012)
Interest expenses	152,525	165,307
Total expenses recognized in profit or loss	**195,870**	**(127,705)**

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

	Year ended 31 December 2019	Year ended 31 December 2018
(Gain)/loss from change in demographic actuarial assumptions	234,871	45,898
(Gain)/loss from change in financial actuarial assumptions	614,312	(335,660)
(Gain)/loss arising from experience adjustment	198,633	164,145
Total (gain)/loss recognized in other comprehensive income	**1,047,816**	**(125,617)**

(in thousands of Russian rubles, unless otherwise stated)

28 Employee benefits (continued)

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

	Year ended 31 December 2019	Year ended 31 December 2018
Remeasurements at 1 January	**370,958**	**496,575**
Movement of remeasurements	1,047,816	(125,617)
Remeasurements at 31 December	**1,418,774**	**370,958**

The key actuarial assumptions are as follows:

	31 December 2019	31 December 2018
Financial assumptions		
Discount rate	6.30%	8.70%
Future salary increase	4.00%	4.10%
Inflation rate	4.50%	4.60%
Demographic assumptions		
Expected age of retirement		
• Men	65	60-65
• Women	60	59-64
Average level of staff movement	5.90%	5.90%

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 (inflations)	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 2019	31 December 2018
Cost of employee benefit commitments	(2,996,844)	(1,950,777)
Asset value	514,585	549,081
Net value	**(2,482,259)**	**(1,401,696)**

Expected payments under the defined long-term employee benefit plans to employees in 2020 year including non-state pension schemes are RUB 368,652 thousand under the defined benefit plans.

(in thousands of Russian rubles, unless otherwise stated)

29 Trade and other payables

	31 December 2019	31 December 2018
Non-current accounts payable		
Trade payables	37,443	8,729
Other payables	60,678	81,675
	98,121	**90,404**
Current accounts payable		
Trade payables	6,411,572	6,035,790
Other payables and accrued expenses	1,549,313	3,054,427
Payables to employees	1,654,892	1,463,903
Dividends payable	470,386	43,154
	10,086,163	**10,597,274**

The Group's exposure to liquidity risk related to payables is disclosed in Note 33.

30 Tax liabilities other than income tax

	31 December 2019	31 December 2018
Value-added tax	1,605,638	1,017,695
Property tax	499,284	441,310
Social security contributions	484,007	433,439
Other taxes payable	168,579	150,702
	2,757,508	**2,043,146**

(in thousands of Russian rubles, unless otherwise stated)

31 Advances from customers

Advances from customers as at 31 December 2019 and 31 December 2018 are reflected, including VAT.

	31 December 2019	31 December 2018
Advances for services of technological connection to electric grids	567,128	541,567
Advances from customers	164,418	76,869
Total non-current advances from customers	**731,546**	**618,436**
Advances for services of technological connection to electric grids	1,218,768	1,190,731
Advances from customers	917,700	435,706
Total current advances from customers	**2,136,468**	**1,626,437**

32 Provisions

	Year ended 31 December 2019	Year ended 31 December 2018
Balance at 1 January	**812,931**	**487,743**
Acquisition of subsidiaries	6,787	-
Increase for the period	1,870,497	839,806
Decrease due to reversal of provisions	(193,860)	(291,727)
Provisions used	(244,832)	(222,891)
Balance at 31 December	**2,251,523**	**812,931**

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 1,098,700 thousand.

33 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 thousands of Russian rubles, unless otherwise stated)

33 Financial risk and capital management (continued)

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 that the Group will incur a financial loss caused by the buyer or counterparty to a financial instrument not fulfilling its contractual obligations in full and within a specified period. Credit risk is mainly related to the group's accounts receivable, bank deposits, cash and cash equivalents.

Deposits with an initial maturity of more than three months, cash and cash equivalents are placed in financial institutions that have a minimal risk of default, and are considered reliable counterparties with a stable financial position in the financial market of the Russian Federation.

Taking into account the structure of the group's debtors, the group's exposure to credit risk mainly depends on the individual characteristics of each counterparty. The group creates a provision for expected credit losses on trade and other receivables, the estimated amount of which is determined based on the model of expected credit losses weighted by the probability of default, and can be adjusted both upwards and downwards. To do this, the Group analyzes the creditworthiness of counterparties, the dynamics of debt repayment, takes into account changes in payment terms, the availability of third-party guarantees, bank guarantees, and current general economic conditions.

The carrying amount of accounts receivable, less allowance for expected credit losses, represents the maximum amount exposed to credit risk. Although the repayment of accounts receivable is subject to economic and other factors, the Group believes that there is no significant risk of losses exceeding the created allowance.

If possible, the group uses the prepayment system in its relations with counterparties. As a rule, prepayment for technological connection of consumers to networks is provided by the contract. The group does not require collateral for receivables.

In order to effectively manage accounts receivable, the Group monitors changes in the volume of accounts receivable and its structure, identifying current and overdue debts. In order to minimize credit risk, the Group implements measures aimed at timely fulfillment of contractual obligations by contractors, reducing and preventing the formation of overdue debts. Such events include in particular: negotiating with customers, improving the efficiency of the formation process of services volume on electricity transmission, ensure the execution concerted with guaranteeing suppliers schedules a test of reading and technical checks of the accounting system of electricity, restriction of the consumption mode of electric power (exercisable in accordance with the legislation of the Russian Federation), claim work, the presentation of requirements on provision of financial security in the form of independent (bank) guarantees, guarantees and other forms of security for the obligations performance.

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 2019	**31 December 2018**
Financial assets at fair value through other comprehensive income	207,257	191,900
Trade and other receivables (net of allowance for impairment)	13,100,003	12,258,106
Cash and cash equivalents	1,517,108	787,053
	14,824,368	**13,237,059**

(in thousands of Russian rubles, unless otherwise stated)

33 Financial risk and capital management (continued)

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 2019	**31 December 2019**	**31 December 2018**	**31 December 2018**
Buyers of electricity sales services	532,185	(360,681)	1,522,274	(1,393,223)
Buyers of electricity transmission services	21,785,984	(10,212,459)	20,977,284	(9,973,809)
Buyers of technological connection to networks	186,277	(79,341)	241,728	(109,051)
Other buyers	828,826	(201,996)	428,729	(73,503)
	23,333,272	**(10,854,477)**	**23,170,015**	**(11,549,586)**

The carrying amount of trade receivables attributable to the ten largest debtors of the Group was RUB 9,624,664 thousand as at 31 December 2019 (as at 31 December 2018: RUB 9,220,203 thousand).

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 2019	**31 December 2019**	**31 December 2018**	**31 December 2018**
Not past due	8,536,983	(315,291)	8,576,631	(29,191)
Past due less than 3 months	1,768,629	(70,687)	1,184,531	(65,154)
Past due more than 3 months and less than 6 months	886,638	(138,759)	581,612	(125,922)
Past due more than 6 months and less than 1 year	1,082,391	(459,751)	1,520,304	(428,964)
Past due more than 1 year	13,290,372	(11,480,522)	12,919,062	(11,874,803)
	25,565,013	**(12,465,010)**	**24,782,140**	**(12,524,034)**

The movement in the allowance for expected credit losses was as follows:

(in thousands of Russian rubles, unless otherwise stated)

33 Financial risk and capital management (continued)

	Year ended 31 December 2019	Year ended 31 December 2018
Balance at 1 January	**12,524,034**	**12,623,551**
Increase for the period	1,726,000	1,693,488
Amounts of trade and other receivables written off using the allowance for impairment accrued earlier	(1,136,431)	(636,393)
Reversal of allowance for impairment for the period	(894,215)	(1,156,612)
Acquisition of subsidiaries	245,622	
Balance at 31 December	**12,465,010**	**12,524,034**

(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.

The amount of free limit on open but unused credit lines of the Group was RUB 48,983,101 thousand at 31 December 2019 (31 December 2018: RUB 27,930,000 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:

(in thousands of Russian rubles, unless otherwise stated)

33 Financial risk and capital management (continued)

31 December 2019	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								
Borrowed funds	33,504,472	37,188,481	9,125,166	23,355,535	4,707,780	-	-	-
Bonds	10,107,840	11,544,550	688,100	5,514,850	5,341,600	-	-	-
Lease liabilities	2,880,604	7,161,371	500,758	464,910	454,487	436,392	329,668	4,975,156
Trade and other payables	10,184,284	10,221,884	10,108,797	4,578	17,068	4,578	81,593	5,270
	56,677,200	**66,116,286**	**20,422,821**	**29,339,873**	**10,520,935**	**440,970**	**411,261**	**4,980,426**

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								
Borrowed funds	25,098,458	29,321,181	2,919,797	8,248,325	18,153,059	-	-	-
Bonds	15,290,522	16,908,350	11,388,600	346,500	5,173,250	-	-	-
Lease liabilities	696	696	696	-	-	-	-	-
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**

(in thousands of Russian rubles, unless otherwise stated)

33 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

During the reporting period, no significant payments were made in foreign currency.

Interest rate risk

Changes in interest rates primarily affect borrowed funds because they change either their fair value (for fixed-rate borrowed funds) or their future cash flows (for floating-rate borrowed funds). The Group's management does not follow any established rules when determining the ratio between borrowed funds at fixed and floating rates. However, at the time of attracting new borrowed funds, management makes a decision based on its judgment on which rate – fixed or floating – will be most beneficial for the Group for the entire settlement period until the debt is repaid.

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.

Sensitivity of cash flows for financial instruments with a floating interest rate

As at 31 December 2019, the Group's financial liabilities with floating interest rates amounted to RUB 12,438,459 thousand (31 December 2018: none).

A possible change in interest rates by 100 basis points would increase (decrease) the amount of profit /(loss) for 2019 by RUB 14,786 thousand (31 December 2018: no changes). This analysis was based on the assumption that all other variables remain unchanged and interest expenses are not capitalized.

Other market price risk

The risk of changes in the price of equity instruments arises in respect of equity securities measured at fair value through other comprehensive income. 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 2019, financial assets measured at fair value through other comprehensive income exposed to equity price risk amounted to RUB 207,257 thousand (31 December 2018: RUB 191,900 thousand). If the stock prices were 10% larger (lower) at constant values of all other variables, the other comprehensive income excluding income tax increased (decreased) by RUB 20,722 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.

		31 December 2019		Level of fair value hierarchy		
	Note	Carrying amount	Fair value	1	2	3
Financial assets at fair value through other comprehensive income						
Investments in equity instruments	18	207,257	207,257	207,220	-	37
Total		**207,257**	**207,257**	**207,220**	**-**	**37**

(in thousands of Russian rubles, unless otherwise stated)

33 Financial risk and capital management (continued)

	Note	31 December 2018 Carrying amount	31 December 2018 Fair value	Level of fair value hierarchy 1	2	3
Financial assets at fair value through other comprehensive income						
Investments in equity instruments	18	191,900	191,900	191,863	-	37
Total		**191,900**	**191,900**	**191,863**	**-**	**37**

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 2019
At 1 January	**191,900**
Change in fair value recognized in other comprehensive income	15,357
At 31 December	**207,257**

•

(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 2019 and as at 31 December 2018, these requirements were met.

34 Capital commitments

As at 31 December 2019, The Group has outstanding commitments under contract for the purchase and construction of property, plant and equipment items for RUB 11,423,253 thousand inclusive of VAT (as at 31 December 2018: RUB 9,286,190 thousand inclusive of VAT).

35 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.

(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 property tax rules continues to develop, the group's criteria for classifying property as movable or immovable property may be challenged by tax authorities and courts. The Group's management does not exclude the risk of outflow of resources, and the impact of such developments cannot be estimated with a sufficient degree of reliability.

Management believes that the relevant provisions of the law are interpreted correctly, and the position of the Group in terms of compliance with tax 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.

(in thousands of Russian rubles, unless otherwise stated)

36 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 2019 and 31 December 2018 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	
Revenue, net other income, finance income	**2019**	**2018**	**2019**	**2018**
Parent company				
Other income	780	780	-	-
Entities under common control of the parent company				
Other revenue	494,428	420,484	547,666	207,120
Dividends receivable	654	420	-	-
	495,862	**421,684**	**547,666**	**207,120**

	Amount of the transaction for the year ended 31 December		Carrying amount	
Operating expenses, finance costs	**2019**	**2018**	**2019**	**2018**
Parent company				
Expenses for services related to the organization of the functioning and development of the EEC	242,405	242,405	47,546	46,753
Technical supervision services	42,249	42,249	-	-
Other expenses	13,671	13,247	-	-
Interest expenses on financial liabilities recorded at amortized cost	812,350	1,286,600	-	229,750
Dividends	-	-	425,506	-
Entities under common control of the parent company				
Electricity transmission services	17,246,855	17,315,181	881,160	871,099
Rent	2,077	4,795	-	6,114
Other expenses	76,967	334,474	396,374	257,152
Others	-	-	903,000	-
	18,436,574	**19,238,951**	**2,653,586**	**1,410,868**

(in thousands of Russian rubles, unless otherwise stated)

36 Related party transactions (continued)

	Carrying amount	
	2019	**2018**
Parent company		
Borrowed funds	-	10,219,596
Entities under common control of the parent company		
Advances given	78,898	67,498
Advances received	567,243	202,669
	646,141	**10,489,763**

In 2019, the Group repaid two issues of bonds purchased by the parent company PJSC "Russian Grids", with a nominal value of RUB 10,000,000 thousand.

The debt to the parent company for the payment of dividends as at 31 December 2019 is RUB 425,506 thousand (as at 31 December 2018 is absent).

(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.

Remuneration of key management personnel consists of the salary stipulated in the employment agreement, non-monetary benefits, as well as bonuses determined by the results for the period and other payments. Remuneration or compensation is not paid to members of the Board of Directors who are public servants.

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 2019	**Year ended 31 December 2018**
Short-term employee benefits	276,795	454,513
	276,795	**454,513**

As at 31 December 2019, 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 7,546 thousand (as at 31 December 2018: RUB 13,727 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 2019 constitute 48% (for the year ended 31 December 2018: 41%) of total Group revenues, including 50% (for the year ended 31 December 2018: 43%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for state-controlled entities for the year ended 31 December 2019 constitute 61% (for the year ended 31 December 2018: 61%) of total electricity transmission costs.

Interest expense for government-related entities account for 63% of the total interest expenses for the year ended 31 December 2019 (for the year ended 31 December 2018: 54%).

36 Related party transactions (continued)

As at 31 December 2019, the balance of cash and cash equivalents held with state-controlled banks is RUB 435,149 thousand (as at 31 December 2018: RUB 756,026 thousand).

As of 31 December 2019, lease obligations for companies associated with the state amounted to RUB 176,821 thousand.

Borrowed funds received from state-controlled banks are disclosed in Note 26.

37 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.