Consolidated financial statements of
Public Joint Stock Company ROSSETI and its subsidiaries
prepared in accordance with
International Financial Reporting Standards
for the year ended 31 December 2019
with independent auditor's report

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26.03.2020
№ Рсм-1034

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Public Joint Stock Company "ROSSETI" (PJSC "ROSSETI")

Opinion

We have audited the consolidated financial statements of PJSC "ROSSETI" and its subsidiaries (hereinafter - the Group), which comprise the Consolidated Statement of Financial Position as of 31 December 2019, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended 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 the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). 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 Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of property, plant and equipment

In our opinion, this matter was one of most significance in our audit due to a significant share of property, plant and equipment in total assets of the Group, high level of subjectivity of assumptions used to determine the fair value as well as materiality of judgments and estimates made by the management in determining the replacement cost of property, plant and equipment.

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, making it impossible to use market-based approaches for determining its fair value. Consequently, the fair value of such items is primarily determined by the Group using depreciated replacement cost valuation method.

We have performed procedures of analysis and testing of the model used in making the estimates, assessment of adequacy of assumptions underlying the estimates, including assumptions in respect of projected revenue, tariffs solutions, discount rates etc.

We have also reviewed the relevant controls in respect of the estimates, consideration by management of estimation uncertainty and changes in approaches as compared to the previous period. We have reviewed the actual outcomes of the use of the model to obtain sufficient appropriate audit evidence about whether the management in making the estimates complied with IFRS requirements, the methods used in estimates of tests are appropriate and are applied consistently and the changes in estimates are reasonable based on information available at the date of preparation of the accounts.

For testing the model of estimate and underlying assumptions, we have engaged an expert in accordance with the procedure established by ISA.

We have evaluated the accuracy and sufficiency of disclosures to the consolidated financial statements of information about determination of the fair value of property, plant and equipment, including information about uncertainties taken into consideration when making the estimates.

Information about property, plant and equipment, the manner of recognition and measurement of the Group's property, plant and equipment is provided in Notes 2, 3, 4, 15 to the consolidated financial statements.

Allowance for expected credit losses on trade and other receivables

In our opinion, this matter was one of most significance in our audit due to significant balances of trade and other receivables as at 31 December 2019. The management estimate of recoverability of these receivables is complex, largely subjective and based on the assumptions, in particular, forecasting and estimating financial solvency of the Group's counterparties, credit risk and expected credit losses.

We have performed procedures of evaluation of the adequacy of the Group's policy on reviewing trade and other receivables and determining if allowance for credit losses should be accrued, as well as procedures of confirming the reasonableness of the estimates made by the management of the Group, including specific characteristics of specific clients, their financial solvency, dynamics of collection of accounts receivable, payments and arrangements after the balance-sheet date, as well as review of expected future cash flows, credit losses.

Accrued allowance for expected credit losses on trade and other receivables is disclosed by the Group in Notes 2, 10, 19 and 28 to the consolidated financial statements.

Recognition and measurement of revenue

Recognition and measurement of revenue were matters of most significance in our audit due to certain imperfection of mechanisms of operation of electricity market and it leads to disagreements between electric grid companies and energy supply companies in respect of volume of electricity consumption and capacity. The assessment by the Group's management of favorable outcome of the dispute resolution is, to a large extent, subjective and is based on the assumptions of dispute resolution.

We evaluated the internal control over revenue recognition, reviewed the accuracy of determined revenue amounts based on concluded contracts for electricity transmission and other work (services), on a sample basis obtained confirmations of accounts receivable balances from the counterparties, reviewed and evaluated existing procedures for confirming the volume of electricity transmitted and outcomes of litigations in respect of disputed amounts for the provided services, and also performed other procedures to obtain sufficient and appropriate audit evidence, in order to confirm the accuracy, in all material respects, of the amounts of revenues recognized in the consolidated financial statements.

Revenue amounts and recognition approach are disclosed in Notes 2, 7, 8 to the consolidated financial statements.

Recognition, measurement and disclosure of provisions and contingent liabilities

Recognition, measurement and disclosure of provisions and contingent liabilities in respect of litigations and claims of counterparties (including territorial electric grid companies and energy supply companies) were matters of most significance in our audit because they require a lot of management judgments in respect of significant amounts in dispute in the course of litigations and claim settlements.

Our audit procedures included review of court rulings made by courts of different levels, review of adequacy of management judgments and documents confirming the assessment of possibility of outflow of economic resources following dispute resolutions, conformity of the prepared documentation with the existing contracts and compliance with the law.

Provisions and contingent liabilities of the Group are disclosed in Notes 3, 10, 27 and 30 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report of PJSC "ROSSETI" for 2019 and the quarterly report of the issuer PJSC "ROSSETI" for the 1st quarter of 2020, but does not include the consolidated financial statements and our auditor's report thereon. The annual report of PJSC "ROSSETI" for 2019 and the quarterly report of the issuer for the 1st quarter of 2020 are expected to be made available to us after the date of this auditor's report.

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

In connection with the audit of the financial statements, our responsibility is to study the other information provided above, when it is provided to us, and to consider whether there are material misstatements between the other information and the financial statements or our knowledge obtained in the course of the audit, and whether the other information contains other possible material misstatements.

In case after reviewing the annual report of PJSC "ROSSETI" for 2019 and/or the quarterly report of the issuer PJSC "ROSSETI" for the 1st quarter of 2020, we conclude that there are material misstatements therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and the 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 International Financial Reporting Standards, 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.

The Audit Committee of the Board of Directors is 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 the 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 the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the Audit Committee of the Board of Directors 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 the 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.

Management Board Member **T.P. Gazeeva**

Audit Certificate No. K002804. Issued following Resolution of Central Attestation and License Audit Commission of the Russian Federation Ministry of Finance dated 27 January 2000 No. 76. Permanent award.

ORNZ in the Register of auditors and audit organizations – 21706002821

"РСМ РУСЬ"

Engagement Leader on the audit resulting in this Independent auditor`s report **N.N. Usanova**

Audit Certificate No. 05-000030. Issued following Resolution of self-regulatory organization Not-for-Profit Partnership "Russian Collegium of Auditors" dated 30 November 2011 No. 25. Permanent award.

ORNZ in the Register of auditors and audit organizations – 21706004441

Audited entity:
Public Joint Stock Company "ROSSETI" (abbreviated name - **PJSC "ROSSETI"**)
Location: 4 Belovezhskaya St., Moscow, 121353, Russia;
Primary state registration number – 1087760000019.

Auditor:
RSM RUS Ltd.
Location: room 25, floor 4, 4, Pudovkina St., Moscow, 119285;
Tel.: (495) 363-28-48; Fax: (495) 981-41-21;
Primary state registration number – 1027700257540;
RSM RUS Ltd. is a member of Self-regulatory organization of auditors Association "Sodruzhestvo" (membership certificate # 6938, ORNZ 11306030308), location: 21, Michurinsky Ave., bldg. 4, Moscow, 119192.

The audit was conducted pursuant to Contract No. 191a051 dated 01.07.2019, concluded based on the results of competitive selection (Minutes of 30.03.2018, procurement №0473000000518000001). The auditor was approved by the Annual General Meeting of Shareholders (AGM) on June 29 2018.

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

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	9	1,029,654	1,021,602
Operating expenses	11	(858,282)	(835,755)
Accrual of allowance for expected credit losses	33	(23,356)	(25,820)
Net accrual of impairment of property, plant and equipment and right-of-use assets	15	(23,631)	(7,688)
Other income	10	31,966	26,170
Other expenses	10	(4,860)	(2,815)
Operating profit		**151,491**	**175,694**
Finance income	13	21,741	17,617
Finance costs	13	(31,696)	(27,517)
Total finance costs		**(9,955)**	**(9,900)**
Share of profit of associates and joint ventures (net of income tax)		192	337
Profit before income tax		**141,728**	**166,131**
Income tax expense	14	(36,436)	(41,453)
Profit for the period		**105,292**	**124,678**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation difference		(228)	178
Total items that may be reclassified subsequently to profit or loss		**(228)**	**178**
Items that will not be reclassified subsequently to profit or loss			
Changes in fair value of financial assets at fair value through other comprehensive income		9,865	1,667
Remeasurements of the defined benefit liability	28	(5,056)	2,381
Income tax	14	(731)	6,160
Total items that will not be reclassified subsequently to profit or loss		**4,078**	**10,208**
Other comprehensive income for the period, net of income tax		**3,850**	**10,386**
Total comprehensive income for the period		**109,142**	**135,064**
Profit attributable to:			
Owners of the Company		76,773	90,985
Non-controlling interest		28,519	33,693
Total comprehensive income attributable to:			
Owners of the Company		80,411	99,184
Non-controlling interest		28,731	35,880
Earnings per share			
Basic and diluted earnings per share (in RUB)	25	0.38	0.45

These consolidated financial statements were approved by management on 26 March 2020 and were signed on its behalf by:

Director General

P.A. Livinsky

ПАО "Россети"

Director for accounting and reporting – Chief Accountant

D.V. Nagovitsyn

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

Consolidated Statement of Financial Position
(in millions of Russian rubles unless otherwise stated)

	Notes	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	15	2,119,648	1,983,874
Intangible assets	16	19,648	19,145
Right-of-use assets	17	36,669	–
Investments in associates and joint ventures		1,296	1,401
Trade and other receivables	21	76,882	78,068
Assets related to employee benefits plans		5,808	6,216
Other non-current financial assets	18	49,227	41,562
Deferred tax assets	19	12,245	10,090
Advances given and other non-current assets	22	6,664	4,453
Total non-current assets		**2,328,087**	**2,144,809**
Current assets			
Inventories	20	37,329	37,109
Other current financial assets	18	57,592	47,192
Income tax prepayments		2,266	3,380
Trade and other receivables	21	126,827	161,465
Cash and cash equivalents	23	79,013	84,056
Advances given and other current assets	22	18,152	19,154
Total current assets		**321,179**	**352,356**
Assets held for sale	10	313	21,467
Total assets		**6,649,579**	**2,518,632**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	200,903	200,903
Share premium		213,098	213,098
Treasury shares		(109)	(109)
Other reserves		17,517	15,322
Retained earnings		758,600	687,786
Total equity attributable to owners of the Company		**1,190,009**	**1,117,000**
Non-controlling interests		394,096	377,962
Total equity		**1,584,105**	**1,494,962**
Non-current liabilities			
Non-current borrowings	26	464,709	480,989
Non-current trade and other payables	29	23,797	17,825
Non-current advances received	31	42,280	26,221
Employee benefit liabilities	28	27,800	23,592
Deferred tax liabilities	19	91,878	76,640
Total non-current liabilities		**650,464**	**625,267**
Current liabilities			
Current borrowings and current portion of non-current borrowings	26	97,698	87,268
Trade and other payables	29	208,685	202,568
Taxes other than income tax	30	22,427	23,724
Advances received	31	58,992	68,832
Provisions	32	23,234	10,901
Current income tax liabilities		3,974	5,110
Total current liabilities		**415,010**	**398,403**
Total liabilities		**1,065,474**	**1,023,670**
Total equity and liabilities		**2,649,579**	**2,518,632**

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

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**105,292**	**124,678**
Adjustments for:			
Depreciation of property, plant and equipment and right-of-use-assets, amortisation of intangible assets	11	129,413	116,124
Accrual of impairment of property, plant and equipment and right-of-use assets, net	15	23,631	7,688
Finance costs	13	31,696	27,517
Finance income	13	(21,741)	(17,617)
Loss on disposal of property, plant and equipment	10	4,860	2,275
Share of profit of associates and joint ventures, net of income tax		(192)	(337)
Gain on derecognition of subsidiary	10	–	(690)
Accrual of allowance for expected credit losses	33	23,356	25,820
Accrued provisions		17,340	4,952
Gain on compensation of losses in connection with retirement / liquidation of electric grid assets		(2,663)	(2,684)
Non-cash settlements of technological connection agreements		(962)	(2,570)
Gain on disposal of assets	10	(8,110)	–
Gain on acquisition of new subsidiaries	10	(1,036)	–
Other non-cash transactions		(774)	(697)
Income tax expense	14	36,436	41,453
Total impact of adjustments		**231,254**	**201,234**
Change in assets related to employee benefit liabilities		408	494
Change in employee benefit liabilities		(2,633)	(8,839)
Change in non-current trade and other receivables		1,022	(8,843)
Change in non-current advances given and other non-current assets		(2,508)	317
Change in non-current trade and other payables		2,459	955
Change in non-current advances received		16,058	1,619
Cash flows from operating activities before changes in working capital and provisions		**351,352**	**311,615**

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

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Changes in operating assets and liabilities:			
Change in trade and other receivables		(14,159)	(27,494)
Change in advances given and other assets		2,419	4,029
Change in inventories		546	(1,648)
Change in trade and other payables		526	26,371
Change in advances received		(9,895)	(2,432)
Change in provisions		(5,051)	(4,613)
Cash flows from operating activities before income tax and interest paid		**325,738**	**305,828**
Income tax paid		(23,971)	(27,550)
Interest paid on lease agreements		(3,305)	(250)
Interest paid		(42,017)	(39,457)
Net cash flows from operating activities		**256,445**	**238,571**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(231,684)	(220,653)
Proceeds from sale of property, plant and equipment and intangible assets		1,622	1,375
Acquisition of investments and placement of bank deposits		(119,864)	(73,091)
Disposal of investments and withdrawal of bank deposits		109,730	26,351
Interest received		9,210	7,129
Sale of financial investments		32,180	2,795
Acquisition of shares in subsidiary net of cash and cash equivalents	6	(3,818)	–
Proceeds from sale of subsidiary, net of cash and cash equivalents		45	–
Dividends received		1,467	2,254
Net cash flows used in investing activities		**(201,112)**	**(253,840)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		288,722	615,072
Repayment of loans and borrowings		(330,660)	(605,710)
Acquisition of non-controlling interests		(74)	(476)
Sale of treasury shares		–	1,214
Dividends paid to owners of the Company		(4,988)	(2,436)
Dividends paid to non-controlling interest		(10,154)	(10,248)
Repayment of lease liabilities		(3,222)	(145)
Net cash flows used in financing activities		**(60,376)**	**(2,729)**
Net decrease in cash and cash equivalents		**(5,043)**	**(17,998)**
Cash and cash equivalents at the beginning of the period	23	**84,056**	**102,054**
Cash and cash equivalents at the end of the period	23	**79,013**	**84,056**

Consolidated Statement of Changes in Equity
(in millions of Russian rubles unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2018	**200,903**	**213,098**	**(109)**	**15,322**	**687,786**	**1,117,000**	**377,962**	**1,494,962**
Changes in accounting policy (Note 2e)	–	–	–	–	(430)	(430)	(5)	(435)
Balance at 1 January 2019 (restated)	**200,903**	**213,098**	**(109)**	**15,322**	**687,356**	**1,116,570**	**377,957**	**1,494,527**
Profit for the period	–	–	–	–	76,773	76,773	28,519	105,292
Transfer of provision for revaluation on the disposal of equity investments (Note 18)	–	–	–	(1,338)	1,338	–	–	–
Other comprehensive income	–	–	–	4,358	–	4,358	223	4,581
Related income tax (Note 14)	–	–	–	(720)	–	(720)	(11)	(731)
Total comprehensive income for the period	**–**	–	–	**2,300**	**78,111**	**80,411**	**28,731**	**109,142**
Dividends (Note 24)	–	–	–	–	(4,990)	(4,990)	(15,323)	(20,313)
Change of non-controlling interest (Note 24)	–	–	–	(105)	(1,877)	(1,982)	2,060	78
Acquisition of new subsidiaries (Note 6)	–	–	–	–	–	–	671	671
Balance at 31 December 2019	**200,903**	**213,098**	**(109)**	**17,517**	**758,600**	**1,190,009**	**394,096**	**1,584,105**

Consolidated Statement of Changes in Equity
(in millions of Russian rubles unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2018	**200,903**	**213,098**	**(2,702)**	**25,752**	**583,424**	**1,020,475**	**349,318**	**1,369,793**
Profit for the period	–	–	–	–	90,985	90,985	33,693	124,678
Transfer of provision for revaluation on the disposal of equity investments (Note 18)	–	–	–	(18,629)	18,629	–	–	–
Other comprehensive income	–	–	–	3,244	–	3,244	982	4,226
Related income tax (Note 14)	–	–	–	4,955	–	4,955	1,205	6,160
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**(10,430)**	**109,614**	**99,184**	**35,880**	**135,064**
Sale of treasury shares	–	–	2,593	–	(1,379)	1,214	–	1,214
Dividends	–	–	–	–	(2,442)	(2,442)	(10,461)	(12,903)
Change of non-controlling interest	–	–	–	–	(1,431)	(1,431)	1,210	(221)
Derecognition of subsidiary	–	–	–	–	–	–	2,015	2,015
Balance at 31 December 2018	**200,903**	**213,098**	**(109)**	**15,322**	**687,786**	**1,117,000**	**377,962**	**1,494,962**

1 Background

a) The Group and its operations

Public Joint Stock Company «ROSSETI» (PJSC «ROSSETI» or the "Company") and its subsidiaries (the "Group" or "Rosseti Group of Companies") are a natural monopoly operator of distribution and transmission grids in the Russian Federation, the largest backbone power grid company. By Decree of the President of the Russian Federation dated August 4, 2004 No. 1009 “On approval of the list of strategic enterprises and strategic joint-stock companies”, the Company is included in the List of strategic enterprises and strategic joint-stock companies.

The primary activities of the Group are provision of services for transmission and distribution of electricity for power grids and provision of services for technological connection of consumers to the grids. The Group’s power distribution companies sell electricity. The Group’s principal subsidiaries are disclosed in Note 5.

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

Location of PJSC «ROSSETI» is 4 Belovezhskaya Street, Moscow, Russia, 121353.

b) The Group’s business environment

The Group operates mainly in the Russian Federation.

The economy of the Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. Legal, tax and regulatory systems continue to evolve and are subject to frequent changes and varying interpretations. Ongoing political tensions, as well as international sanctions against some Russian companies and citizens, continue their adverse effect on the Russian economy.

The stability of oil prices, low unemployment rate and rising wages contributed to moderate economic growth in 2019. Such economic environment has a significant impact on the Group's operations and financial position.

Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. Nevertheless, 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.

c) Relations with the state

The Russian Government through the Federal Agency for the Management of State Property is the ultimate controlling party of the Company. The Government’s economic, social and other policies could have a significant impact on the Group's operations.

As at 31 December 2019 the Russian Government owned 88.04 % in the share capital of the Company, including 88.89 % of the voting ordinary shares and 7.01 % of the preference shares (as at 31 December 2018 the Russian Government owned 88.04 % in the share capital of the Company, including 88.89 % of the voting ordinary shares and 7.01 % of the voting preference shares)

The State influences the Group's operations through its representation in the Board of Directors of the Company, regulation of tariffs in the electric power industry, approval and control over implementation of the investment program. The Group's counterparties (consumers of services, suppliers and contractors, etc.) include a significant number of state controlled entities.

2 Basis of preparation

a) Statement of compliance

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

Each entity of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Russian Accounting Standards (hereinafter – RAS).

The Group's consolidated financial statements are based on the statutory records in accordance with RAS with adjustments and reclassifications for the fair presentation in accordance with IFRS.

b) Basis for measurement

These consolidated financial statements have been prepared on the historical cost basis, except for:

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

c) Functional and presentation currency

The Russian ruble (hereinafter referred to as ruble or RUB) is the national currency of the Russian Federation and is used by the Group as its 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 million.

d) Use of professional judgements and estimates

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

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

The professional judgements and assumptions that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of fixed and right-of-use assets

At each reporting date management assesses whether there is any indication of impairment in respect of property, plant and equipment and right-of-use assets. Such indication includes a change in business plans, tariffs and other factors leading to unfavorable impact on the Group's business.

When measuring value in use, management assesses estimated cash flows from assets or groups of assets (cash generating units) and calculates an acceptable discount rate for the present value of these cash flows. For more detailed information see note 15 "Property, plant and equipment" and 17 "Right – of – use assets"

Impairment of accounts receivable

Allowance for expected credit losses of accounts receivable is based on management assumption of debt recovery made for each debtor individually. For the purposes of assessing credit losses, the Group consistently takes into account all reasonable and verifiable information on past events, current and projected events that is available without excessive effort and is appropriate for the assessment of receivables.

Experience gained in the past is adjusted on the basis of data available to date to reflect current conditions that had no impact on previous periods and to exclude the impact of conditions that have occurred in the past and no longer exist.

Pension obligations

The costs of the defined benefit pension plan and its related costs are determined using actuarial valuations. Actuarial valuations involve making demographic and financial data assumptions. As the programme is the long-term one there is considerable uncertainty about such estimates.

Deferred tax assets recognition

At each reporting date, management assesses the amount of deferred tax assets to be recognized to the extent that tax deductions are likely to be used. In determining future taxable profit and deductions, management makes estimates and judgments based on the taxable profit of previous years and expectations for future profits that are reasonable in the current circumstances.

e) Change in accounting policies

Starting from 1 January 2019 the Group began applying IFRS 16 *Leases* as described below:

IFRS 16 *Leases*

New IFRS 16 *Leases* was issued in January 2016 and replaces existing leases guidance including IAS 17 *Leases* and relevant leases IFRS interpretations; eliminating the classification of leases as either operating leases or finance lease and establishes a single lessee accounting model.

An agreement is, or contains, a lease if it conveys the right to control the use of an identified asset for a period in exchange for consideration.

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

The lease liability is initially measured at the present value of the lease payments that are not paid on inception of the lease and subsequently measured at amortized cost in the form of interest in the finance costs line in the consolidated statement of profit or loss and other comprehensive income. Lease liabilities are presented in the Consolidated Statement of financial position under Current and Non-current Borrowings lines.

Regarding a separate lease agreement, the decision may be made on the qualification of the agreement as a lease with the low cost of an asset. Lease payments under such an agreement will be recognized as an expense on a straight-line basis over the lease term.

The Group defines the lease term as a non-early termination period during which the Group has the right to use the underlying assets, together with:

- periods in respect of which the option to extend the lease applies, if there is sufficient certainty that the Group will exercise this option; and
- periods in respect of which an option to terminate the lease applies, if there is sufficient certainty that the Group will not exercise this option.

(in millions of Russian rubles, unless otherwise stated)

When determining the lease term the Group considers the following factors:

- whether the leased facility is specialized;
- the location of the facility;
- the Group and the lessor have the practical ability to choose an alternative counterparty (choose an alternative asset);
- costs associated with the termination of the lease and the conclusion of a new (replacement) contract;
- the presence of significant improvements to the leased facilities.

The main objects of the Group's lease are electric grid facilities (electricity transmission grids, equipment for electricity transmission, other) and land plots. 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 term of not more than 1 year with the possibility of annual renewal, the Group determines the term of the contract using the useful life of fixed assets located on leased land plots as basic criteria.

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 renewal, the Group determines the term of the contract using the useful life of its own fixed assets with similar technical characteristics as basic criteria.

The Group adopted a modified retrospective method to reflect the cumulative effect of the initial application of the standard as at the date of transition – 1 January 2019. The weighted average rate of additional borrowings applied to lease liabilities recognized in the Statement of financial position at the date of initial application was 9.42%.

The Group also applied practical simplifications, in particular - did not apply the new standard to lease agreements that expire within twelve months from the date of transition.

As at 1 January 2019 the date of initial application of IFRS 16 *Leases*, the effect on the Groups assets, liabilities and the capital is the following:

	1 January 2019
Assets	
Property, plant and equipment	(2,302)
Right-of-use assets	34,025
Impairment loss of right-of-use assets	(437)
Deferred tax assets	2
Advances given and other current assets	(273)
Liabilities	
Long-term lease liabilities (within non-current borrowings)	29,380
Short-term lease liabilities (within current borrowings)	2,502
Trade and other payables	(432)
Retained earnings	(435)

(in millions of Russian rubles, unless otherwise stated)

Below is the reconciliation between contractual operating lease liabilities performed under IAS 17 *Leases* as at 31 December 2018 and lease liabilities recognized in the Statement of financial position as at 1 January 2019 under IFRS 16 *Leases*.

	1 January 2019
Operating lease liabilities as at 31 December 2018	**64,545**
Other operating lease liabilities	19,728
Options for renewal /termination of leases for which there is sufficient certainty	12,709
Exemption for the recognition of short-term leases	(670)
Discounting effect	(63,749)
Finance lease liabilities as at 31 December 2018	1,952
Other	(681)
Lease liabilities as at 1 January 2019	**33,834**

f) Changes in presentation

Reclassification of comparative data

In the reporting period the Group changed the presentation of certain amounts in order to provide more accurate presentation of information about its nature in the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income. To provide comparability the previous reporting period data have been reclassified:

– Accrual (reversal) of allowance for expected credit losses previously disclosed in Note 11 “Operating expenses” is disclosed as a separate line in the Consolidated Statement of profit or loss and other Comprehensive Income,

– Net accrual (reversal) of impairment of property, plant and equipment previously disclosed in Note 11 “Operating expenses” is disclosed as a separate line in the Consolidated Statement of profit or loss and other comprehensive income,

– Other income and other expenses previously disclosed in Note 10 “Other income and other expenses” is disclosed as a separate line in the Consolidated Statement of profit or loss and other comprehensive income,

– Advances given and other non-financial assets previously disclosed in Note 21 “Trade and other receivables” are presented as separate lines “Advances given and other current assets” and “Advances given and other non-current assets” in the Consolidated Statement of financial position;

– Non-current and current advances received (contract liability) previously disclosed in Note 29 “Trade and other payables” are disclosed in separate lines in the Consolidated Statement of financial position;

– Taxes payable, other than income tax, previously disclosed in Note 29 “Trade and other payables” are disclosed in a separate line in the Consolidated Statement of financial position;

g) Application of new and amended standards and interpretations

Except for the changes in accounting policies described in section 2e the following new amendments and interpretations that are effective as at 1 January 2019 have no impact on these consolidated 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 IFRS 11 *Joint Arrangements*;

- Amendments to IAS 12 *Income Taxes – Income Tax Consequences of Payments on Instruments Classified as Equity*;
- Amendments to IAS 23 *Borrowing Costs*;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*.

A number of new Standards, amendments to Standards and Interpretations were published and are mandatory for the annual periods beginning on or after 1 January 2020, and which the Group has not early adopted:

- Amendments to IAS 1 and IAS 8 *Definition of Material*

These amendments specify the definition of “material” and its application by including recommendations on the definition that were previously presented in other IFRSs and align the definition across the Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

- The Conceptual Framework for Financial Reporting

The revised *Conceptual Framework for Financial Reporting* contains a new Chapter on measurement, recommendations for reporting financial results, new definitions and recommendations (in particular – definition of “liabilities”) and explanations on specific issues such as the role of management, prudence, and measurement uncertainty in the preparation of financial statements.

- Amendments to IAS 3 *Definition of a Business*

These amendments specify the definition of “business” and are to help entities determine whether an acquired set of activities and assets is a business or not.

- Amendments to IAS 1 *Classification of liabilities as current and non-current*

The amendments specify the requirements for classifying liabilities as current and non-current (depending on the rights that exist at the end of the reporting period).

- IFRS 17 Insurance *Contract*, Amendments to IFRS 9, IAS 39 и IFRS 7 *Interest Rate Benchmark Report* - are not applicable to the Group.

The Group plans to adopt these pronouncements when they become effective; they are not expected to have a significant impact on the Group’s Consolidated Financial Statements.

3 Significant accounting policies

Accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for changes in the accounting policy described in notes 2e and related to adoption of from 1 January 2019 IFRS 16 *Leases* and reclassification of comparative data disclosed in note 2f.

a) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity 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 applicable 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 debit balance (“deficit”) on the account.

ii. Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which the Group obtains control of the acquiree.

The Group measures goodwill at the acquisition date as:

– The fair value of the consideration transferred: plus

– The recognized amount of any non-controlling interests in the acquiree; plus

– The fair value of the pre-existing equity interest in the acquiree if the business combination is achieved in stages; less

– 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 recognised 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 recognised 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 therefore 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. Acquisition 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 the predecessor. The acquired assets and liabilities are recognized at the carrying amounts recognized previously in the consolidated financial statements of the acquired entities. Any cash or other contribution paid for the acquisition is recognized directly in equity.

v. Investments in associates (equity accounted investees)

Associates are such 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 costs.

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 denominated in foreign currency at the reporting date are translated to rubles at the exchange rate at that date. Foreign currency transactions accounted for at the exchange rates prevailing at the date of the transactions. Foreign currency profit or loss arising from retranslation is recognised in profit or loss.

c) Financial instruments

i. Financial assets

The Group classified financial assets as follows: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, financial assets measured at fair value through profit or loss

The classification depends on the business model for managing financial assets and the contractual characteristics of cash flows.

Financial assets are classified as measured at amortised cost if the following conditions are met: the asset is held under a business model that aims to hold assets to receive contractual cash flows, and at the end of the contract, cash flows are received on the specified dates that are solely payments to the principal amount and interest on the outstanding portion of the principal amount.

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

- trade and other receivables that meet the definition of financial assets in case the Group does not intend to sell them immediately or in the nearest future;
- bank deposits, that do not meet the criteria of cash equivalents;
- promissory notes and bonds not held for trading;
- loans given;
- cash and cash equivalents.

For financial assets classified as measured at amortised cost, an allowance for expected credit losses (hereinafter – ECL) is made.

When financial assets measured at amortised cost and fair value through profit or loss are derecognized, the Group recognizes the financial result of their disposal equal to the difference between the fair value of the consideration received and the carrying amount of the asset in the Consolidated Statement of profit or loss and other comprehensive income (through profit or loss) .

The Group treated the following equity instruments of other companies as financial assets measured at fair value through other comprehensive income:

- those that are not classified as measured at fair value with any change therein recognised in profit or loss; and
- those that do not provide the Group with control, joint control, or significant influence over the company under investment.

When equity instruments of other companies classified at the Group's discretion as measured at fair value through other comprehensive income are derecognized, the previously recognized components of other comprehensive income are transferred from the provision of fair value change to retained earnings.

***ii*. Impairment of financial assets**

Loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument.

The Group uses a simplified approach to estimating an allowance for expected credit losses – an estimate of an amount equal to the expected credit losses for the entire term of trade receivables or contractual assets that arise as a result of transactions within the scope of IFRS 15 *Revenue from Contracts with Customers* (including those containing a significant financing component) and lease receivables.

For other financial assets classified as at amortised cost loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since initial recognition.

The estimated allowance for expected credit losses on a financial instrument is estimated at each reporting date at the amount equal to the expected credit losses for the entire period if the credit risk for the financial instrument has increased significantly since initial recognition, taking into account all reasonable and verifiable information, including forward-looking information.

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 a contract, the expected renegotiation of the contract due to financial difficulties of the debtor at a disadvantage for the Group the terms on which it would disagree in other circumstances.

Based on the usual credit risk management practice, the Group defines default as the inability of the counterparty (Issuer) to meet its obligations (including repayment of funds under the agreement) due to a significant deterioration in its financial position.

A credit impairment loss on a financial asset is accounted by recognizing an estimated allowance for impairment. For a financial asset measured 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 initial effective interest rate.

If, in subsequent periods, the credit risk of a financial asset decreases as a result of an event occurring after the recognition of this loss, the previously recognized impairment loss is reversed by reducing 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.

***iii*. Financial liabilities**

The Group classifies financial liabilities into the following measurement categories: financial liabilities measured at fair value through profit or loss; and financial liabilities measured at amortised cost.

The Group includes the following financial liabilities in the category of financial liabilities measured at amortised cost:

- loans and borrowing (debt)
- trade and other payables

Loans and borrowing are initially recognized at fair value taking into account transaction costs that are directly related to raising these funds. Fair value is determined based on prevailing market interest rates for similar instruments if it differs significantly from the transaction price. In subsequent periods borrowings are carried at amortised cost using the effective interest rate method; any difference between the fair value of funds received (net of transaction costs) and the amount due is recorded in profit or loss as interest expense over the entire period of the liability to repay the borrowed funds.

Borrowing costs are charged 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 that take a significant amount of time to prepare for use (qualifying assets) are capitalized as part of the asset's value.

Capitalization is performed when the Group:

- bears the costs of qualified assets,
- bears borrowing costs and
- conducts activities related to preparing assets for use or sale.

Capitalization of borrowing costs continues until the asset is ready for use or sale. The Group capitalizes borrowing costs that could have been avoided if it had not incurred the costs of qualifying assets. Borrowing costs are capitalized on the basis of the Group's average cost of financing (weighted average interest expense related to expenses incurred on qualifying assets), except for 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 of loans are capitalized.

Accounts payable are accrued starting the moment the counterparty fulfills its obligations under the agreement. Accounts payable are recognized at fair value and subsequently accounted at amortised cost using the effective interest rate 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 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 labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted 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 within “Other expense” line within profit or loss for the period.

ii. Subsequent cost

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 consolidated 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. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

– Buildings	7–50 years;
– Electricity transmission grids	5–40 years;
– Equipment for electricity transmission	5–40 years;
– Other assets	1–50 years.

Estimated useful lives and residual values of property, plant and equipment 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. For the measurement of goodwill at initial recognition, see Note 3(a)(ii).

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 the consolidated statement of profit or loss and other comprehensive income as incurred.

iv. Amortisation

Amortisation 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 periods 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 amount of the Group's non-financial assets, other than inventories and deferred tax assets, is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the relevant asset is estimated.

For goodwill the recoverable amount is estimated at each reporting date. An impairment loss is recognised if the carrying amount of an asset or its related cash generating unit (CGU) exceeds its estimated (recoverable) amount. The recoverable amount of an asset or cash generating unit is the greater of its two values: the value in use of this asset (this unit) and its fair value less costs to sell.

For the purpose of an impairment test, assets that cannot be individually tested are grouped into the smallest group of assets that generates cash inflows from continuing use of the relevant assets that are largely dependent on the cash inflows of other assets or groups of assets (“cash generating unit”).

For the purposes of impairment test, the goodwill acquired in a business combination allocated to cash generating units which it relates to.

The corporate assets of the Group do not generate separate cash flows and are used by more than one cash generating unit. The cost of a corporate asset is allocated to CGUs on a reasonable and consistent basis, and it is tested for impairment as part of testing the unit to which it was allocated.

Impairment losses are recognized in profit or loss. Impairment losses on cash generating units are initially allocated to reduce the carrying amount of goodwill allocated to these units, and then proportionally to reduce the carrying amount of other assets in the unit (group of units).

Amounts written off as a goodwill impairment loss are not recoverable. For other assets at each reporting date, an impairment loss recognized in one of the previous periods is assessed for any indication that the loss has decreased or no longer exists.

Amounts written off for impairment losses are reversed if the valuation factors used in determining the relevant recoverable amount change.

An impairment loss is reversed only to the extent that it is possible to restore the value of assets to their book value, in which they would be reflected (less accumulated depreciation amounts), if no impairment loss had been recognized.

h) Inventories

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

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

i) Advances given

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 related to sales is payable to 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. As part of advances given and other assets are recognised (on a net basis) the amounts of VAT accrued from advances received and advances given, as well as VAT recoverable and prepayment for VAT. Amounts of VAT payable to the budget are disclosed separately as part of current liabilities. Where allowance for the expected credit losses has been made for receivables, the allowance loss is recorded for the gross amount of the debtor, including VAT.

k) Employee benefits

i. Defined contribution 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

A defined benefit plan is a post-employment benefit plan differing from a defined contribution plan. The liability recognised in consolidated statement of financial position in respect of defined benefit plans is the discounted amount of the 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 on changes in actuarial assumptions are recognized in other comprehensive income/expense.

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

iii. Other non-current employee benefits

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

iv. Short-term benefits

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

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

l) Provisions

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

m) Revenue from Contacts with Customers

The Group recognizes revenue when (or as) it satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.
When (or as) a performance obligation is satisfied, the Group recognizes as revenue the amount which the Group expects to be entitled in exchange for transferring promised assets to a customer excluding VAT.

Electricity transmission service, sale of electricity and power

The Group transfers control of a service or good over period and, therefore, satisfies a performance obligation period (billing month). For measuring progress towards complete satisfaction of a performance obligation the output method is used (cost of transferred and sold electricity and power volumes).

The tariffs for the distribution of electricity (in respect to all constituent entities of the Russian Federation) and sale of electricity on the regulated market (in respect of constituent entities of the Russian Federation, not united in the price zones of the wholesale electricity market) are approved by the executive authorities of constituent entities of the Russian Federation (hereinafter - regional regulatory authority) in the sphere of the state energy tariff regulation within the range of cap and (or) floor tariffs approved by the Federal Antimonopoly Service of the Russian Federation.

Services for technological connection to electric grids

Revenue from the services for technological connection to the electric grid is a non-refundable fee for connecting consumers to the electric grids. The Group transfers control of a service at a point in time (after the consumer is connected to the electric grid) and, therefore, satisfies a performance at a point in time.

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

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

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

Other revenue

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

Trade receivables

The accounts receivables represent the Group's right to compensation, which is unconditional (i.e., the moment when such compensation becomes payable is due only to the passage of time).

Contract liabilities

A contract liability is an obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract. Contract liabilities are recognized within “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 gap of time of more than 1 year between the receipt of advances from customers and transfer of the promised goods and services for reasons other than providing financing to the counterparty (under contracts for technological connection to electric grids), received advances are not recognized interest expense. Such advances are recorded at the fair value of 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 the 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 relates to an asset, it is recognized as income, less the related expenses, 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 (among other income line) in the same periods in which the respective revenue is earned.

o) Social expenditures

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

p) Finance income and cost

Finance income comprises of interest income on funds invested, dividend income, gains on the disposal of financial assets measured at fair value and amortised cost, discounts on financial instruments. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs are comprised of interest expense on borrowings, lease liabilities, and loss on disposal of financial assets measured at fair value or amortised cost, discounts on financial instruments. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest rate method.

q) Income tax expense

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

Current 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 income 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 and 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 rates 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 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 for prior periods; 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 taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

r) Earnings per share

To calculate basic earnings per share, profit or loss is distributed between ordinary shares and preferred shares in proportion to each instrument's share of profit or loss, assuming that all profit (or loss) for the reporting period has been distributed. The total profit or loss attributable to each of the two classes of equity instruments (ordinary shares and preferred shares) is determined by adding together the amount attributable to dividends and the amounts attributable to profit sharing. The total profit or loss thus determined is divided by the number of outstanding shares to which this profit is attributable.

4 Measurement of fair values

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

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

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

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

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

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

The Group recognises transfers between levels of the fair value hierarchy during the reporting period when the change has occurred.

The Group considers the point of time when transfers between and for certain levels are recognised when an event or change in circumstances occurs

(in millions of Russian rubles, unless otherwise stated)

5 Significant subsidiaries

		Ownership/voting, %	
	Country of incorporation	**31 December 2019**	**31 December 2018**
PJSC “FGC UES”	Russian Federation	80.14	80.14
PJSC “MOESK”	Russian Federation	50.90	50.90
JSC “ROSSETI Tyumen”	Russian Federation	100.00	100.00
PJSC “Lenenergo”	Russian Federation	68.10/69.17	68.10/69.17
PJSC “IDGC of Centre”	Russian Federation	50.23	50.23
JSC “IDGC of Urals”	Russian Federation	51.52	51.52
PJSC “IDGC of Centre and Volga region”	Russian Federation	50.40	50.40
PJSC “Kubanenergo”	Russian Federation	93.44	92.78
PJSC “IDGC of Siberia”	Russian Federation	57.84/55.59	57.84/55.59
PJSC “IDGC of Volga”	Russian Federation	67.97	67.97
PJSC “IDGC of North-West”	Russian Federation	55.38	55.38
PJSC “ROSSETI Northern Caucasus”	Russian Federation	98.77	98.71
JSC “Chechenenergo”*	Russian Federation	73.65	71.73
PJSC “ROSSETI South”*	Russian Federation	84.12	65.12
PJSC “TDC”	Russian Federation	85.77/94.58	85.77/94.58
JSC “Yantarenergo”	Russian Federation	100.00	100.00
JSC “Karachaevo-Cherkesskenergo”	Russian Federation	100.00	100.00
JSC “Kalmenergosbyt”	Russian Federation	100.00	100.00
JSC “Kabbalkenergo”	Russian Federation	65.27	65.27
JSC “Tyvaenergosbyt”	Russian Federation	100.00	100.00
JSC “Sevkavkazenergo”	Russian Federation	55.94	55.94
PJSC “Dagestan Power Sales Company”	Russian Federation	51.00	51.00

*The share includes actually placed shares of the current issue

6 Acquisition of subsidiaries

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 3 April 2013 No. 511-r, in order to reduce the number of existing TSS, the Group acquired:

By the subsidiary of PJSC "ROSSETI South":

- on 20 June 2019 – 100% share of JSC «Volgogradskie mejrajonnie elektricheskie seti" (hereinafter – JSC "VMES") in cash consideration of RUB 2,700 million, based on the results of participation in an open tender for the sale of shares of JSC "VMES".
- on 17 May 2019 – 100% share in LLC "UgStroyMontaj" in exchange for RUB 159 million of accounts receivable. The main activity of LLC "UgStroyMontaj" is electricity transmission and technological connection to distribution grids, electrical installation works.

By the subsidiary of PJSC "IDGC of Centre":

- on 20 November 2019 – 100% of shares in the Charter capital of JSC Voronezh City Electric Grids (hereinafter referred to as JSC "VGES") in cash consideration of RUB 1,534 million following as a result of participation in an open tender for the sale of shares of JSC "VGES". 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 20 November 2019.
- on 30 December 2019 – 69.9992% of shares in the Charter capital of Tula City Electric Grids JSC (hereinafter referred to as JSC "TGES"). The purchase price of JSC "TGES" was determined as RUB 903,003 thousand, while RUB 903,000 thousand paid by transferring property rights - rights of claim on receivables, RUB 3,00 thousand in cash.

The Group recorded acquisitions in accordance with the requirements of IFRS 3 *Business Combination*.

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 31 December 2020.

The table below shows the fair value of the identifiable net assets received at the acquisition date.

(in millions of Russian rubles, unless otherwise stated)

	JSC "VMES"	LLC "UgStroyMontaj"	JSC "VGES"	JSC "TGES"
Assets				
Intangible assets	18	–	–	22
Property, plant and equipment	1,899	184	1,785	2,439
Right-of-use assets	1	–	–	–
Deferred tax assets	–	–	372	9
Inventories	99	5	101	28
Accounts receivable	1,156	65	510	230
Advances given and other current assets	13	2	–	–
Cash and cash equivalents	170	2	117	127
Total assets	**3,356**	**258**	**2,885**	**2,855**
Liabilities				
Deferred tax liabilities	(19)	(7)	(1)	(23)
Accounts payable	(664)	(67)	(967)	(141)
Advances received	(62)	(1)	(8)	(7)
Provisions	(24)	–	–	–
Borrowings	(1)	(4)	–	(449)
Current income tax liabilities	(1)	–	–	–
Total liabilities	**(771)**	**(79)**	**(976)**	**(620)**
Total identifiable net assets measured at fair value	**2,585**	**179**	**1,909**	**2,235**
Identifiable net assets measured at fair value in the amount of the acquired share	2,585	179	1,909	1,564
Identifiable net assets attributable to holders of non -controlling interests	–	–	–	671
Transferred consideration	**2,700**	**159**	**1,534**	**903**
Goodwill	115	20	–	–
Gain on a bargain purchase (negative goodwill)	–	–	375	661

In the consolidated statement of profit and loss and other comprehensive income, the gain on a bargain purchase (negative goodwill) on the acquisition of JSC "VGES" and JSC "TGES" in the amount of RUB 1,036 million is recorded in other income.

Net cash outflow related to the acquisition of subsidiaries is presented in the table below

	JSC "VMES"	LLC "UgStroyMontaj"	JSC "VGES"	JSC "TGES"	Total
Net cash received on the acquisition of a subsidiary	170	2	117	127	416
Cash reward	(2,700)	–	(1,534)	–	(4,234)
Net cash (outflow)/inflow	**(2,530)**	**2**	**(1,417)**	**127**	**(3,818)**

The financial results of the acquired subsidiaries after acquisition date did not have a significant impact on the Group's revenue and operating results for the year ended 31 December 2019.

(in millions of Russian rubles, unless otherwise stated)

7 Non-controlling interests

The following table summarizes the information relating to each of the Group's subsidiaries that has material non-controlling interest, before any intra-group eliminations.

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

	FGC	**MOESK**	**Lenenergo**	**IDGC of Centre**	**IDGC of Urals**	**IDGC of Centre and Volga region**	**IDGC of Siberia**	**Other subsidiaries**	**Total**
Non-controlling percentage	**19.86**	**49.10**	**31.90**	**49.77**	**48.48**	**49.60**	**42.16**		
Non-current assets	1,163,752	324,558	199,230	100,447	76,133	80,865	61,818		
Current assets	125,539	24,575	15,265	17,946	12,492	28,484	14,048		
Assets held for sale	313	–	–	–	–	–	–		
Non-current liabilities	(286,068)	(102,456)	(30,388)	(47,687)	(25,709)	(26,104)	(32,339)		
Current liabilities	(102,069)	(70,648)	(45,704)	(24,621)	(17,307)	(28,346)	(25,356)		
Net assets	**901,467**	**176,029**	**138,403**	**46,085**	**45,609**	**54,899**	**18,171**		
Carrying amount of non-controlling interest	**179,874**	**86,436**	**42,419**	**23,443**	**22,479**	**27,239**	**7,670**	**4,536**	**394,096**
Revenue	249,671	161,463	82,665	94,642	106,149	96,534	59,118		
Profit	84,713	8,550	9,211	3,092	2,638	6,906	463		
Other comprehensive income/(loss)	7,383	(669)	(151)	(865)	(455)	2	(108)		
Total comprehensive income	**92,096**	**7,881**	**9,060**	**2,227**	**2,183**	**6 908**	**355**		
Profit/(loss) allocated to non-controlling interest	16,828	4,198	2,938	1,539	1,279	3,425	195	(1,883)	28,519
Other comprehensive income/(loss) allocated to non-controlling interest	1,467	(328)	(48)	(430)	(207)	1	(46)	(197)	212
Cash flows from operating activities	136,234	27,856	33,543	11,946	8,448	10,619	6,784		
Cash flows used in investing activities	(79,069)	(27,176)	(23,476)	(13,069)	(9,641)	(12,719)	(10,493)		
Cash flows from/(used in) financing activities:	(57,706)	(5,782)	(8,123)	1,854	1,309	(2,516)	3,910		
including dividends to non-controlling shareholders	(3,868)	(1,401)	(878)	(442)	(148)	(2,245)	(42)		
Net increase/ (decrease) in cash and cash equivalents	**(541)**	**(5,102)**	**1,944**	**731**	**116**	**(4,616)**	**201**		

(in millions of Russian rubles, unless otherwise stated)

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

	FGC	MOESK	Lenenergo	IDGC of Centre	IDGC of Urals	IDGC of Centre and Volga region	IDGC of Siberia	Other subsidiaries	Total
Non-controlling percentage	**19.86**	**49.10**	**31.90**	**49.77**	**48.48**	**49.60**	**42.16**		
Non-current assets	1,062,120	313,161	191,208	91,969	65,535	75,142	53,838		
Current assets	133,101	26,957	15,390	16,155	14,455	28,180	14,709		
Assets held for sale	21,467	–	–	–	–	–	–		
Non-current liabilities	(280,791)	(98,119)	(42,490)	(36,865)	(14,193)	(23,100)	(25,485)		
Current liabilities	(95,104)	(68,943)	(33,426)	(26,407)	(21,934)	(25,810)	(25,209)		
Net assets	**840,793**	**173,056**	**130,682**	**44,852**	**43,863**	**54,412**	**17,853**		
Carrying amount of non-controlling interest	**167,605**	**84,962**	**40,381**	**22,459**	**21,624**	**26,994**	**7,524**	**6,413**	**377,962**
Revenue	254,463	159,485	77,990	93,834	100,303	94,213	57,051		
Profit	93,588	6,257	13,145	2,938	602	11,759	1,182		
Other comprehensive income/(loss)	8,332	169	(289)	120	459	366	(20)		
Total comprehensive income	**101,920**	**6,426**	**12,856**	**3,058**	**1,061**	**12,125**	**1,162**		
Profit/(loss) allocated to non-controlling interest	18,591	3,072	4,193	1,462	292	5,832	498	(247)	33,693
Other comprehensive income/(loss) allocated to non-controlling interest	1,655	83	(8)	60	226	183	(9)	(3)	2,187
Cash flows from operating activities	124,070	27,801	23,298	14,437	6,486	20,057	9,176		
Cash flows used in investing activities	(84,639)	(24,927)	(15,539)	(13,017)	(7,495)	(12,972)	(12,456)		
Cash flows from/(used in) financing activities:	(44,348)	3,498	(4,824)	(1,995)	1,685	(4,228)	2,427		
- including dividends to non-controlling shareholders	(3,569)	(752)	(1,188)	(427)	(917)	(2,211)	(150)		
Net increase/ (decrease) in cash and cash equivalents	**(4,917)**	**6,372**	**2,935**	**(575)**	**676**	**2,857**	**(853)**		

8 Segment information

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

The "other" segment includes several operating segments such as electricity sales, rent services and repair services. Unallocated items are comprised mainly of assets and account balances related to the Company's headquarters.

The Management Board of the Company assesses the performance, assets and liabilities of operating segments based on internal management reporting, which is based on the information reported in RAS. Performance of each reportable segment is measured based on earnings or loss before interest expense, income tax and depreciation and amortization (EBITDA). Management believes that EBITDA is the most relevant measurement for evaluating the results of the Group's operating segments.

The reconciliation of reportable segment measurements with similar items in these consolidated financial statements includes those reclassifications and adjustments that are necessary for the financial statements to be presented in accordance with IFRS.

Information regarding reportable segments is included below.

(in millions of Russian rubles, unless otherwise stated)

a) Information about reportable segments

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

	IDGC of Siberia and Tomskaya DC	**ROSSETI Tyumen**	**IDGC of Urals**	**IDGC of Volga**	**ROSSETI South**	**Kuban-energo**	**ROSSETI Northern Caucasus**	**IDGC of Centre and Volga**	**IDGC of North-West**	**Len-energo**	**Yantar-energo**	**IDGC of Centre**	**MOESK**	**FGC**	**Other**	**Total**
Revenue from external customers	64,608	63,372	86,668	62,872	35,224	50,996	12,656	96,172	41,361	82,178	1,561	94,126	159,926	94,102	88,967	1,034,789
Inter-segment revenue	66	93	7,374	8	1,743	8	5,705	171	3,770	194	5,379	380	449	148,598	46,866	220,804
Segment revenue	**64,674**	**63,465**	**94,042**	**62,880**	**36,967**	**51,004**	**18,361**	**96,343**	**45,131**	**82,372**	**6,940**	**94,506**	**160,375**	**242,700**	**135,833**	**1,255,593**
Including																
Electricity transmission	58,898	60,871	70,084	62,437	34,911	46,516	14,196	94,329	42,931	75,696	5,628	90,887	148,567	223,144	14,469	1,043,564
Technological connection services	1,224	2,273	783	266	848	4,206	531	1,062	1,298	6,242	1,140	1,542	8,754	17,235	3,021	50,425
Sales of electricity and capacity	4,188	–	22,806	–	923	–	2,708	–	–	–	39	521	–	–	79,230	110,415
Other revenue	302	262	152	87	265	267	356	871	646	271	80	1,528	2,813	1,130	34,573	43,603
Revenue from leases	62	59	217	90	20	15	570	81	256	163	53	28	241	1,191	4,540	7,586
Finance income	75	215	557	243	360	68	552	249	119	701	19	121	319	10,281	546	14,425
Finance costs	(2,387)	(347)	(1,083)	(120)	(2,441)	(1,971)	(655)	(1,815)	(1,087)	(995)	(398)	(3,218)	(5,118)	(4,914)	(1,052)	(27,601)
Depreciation and amortisation	6,176	9,728	5,610	5,577	2,643	4,257	2,086	8,089	4,694	12,590	1,224	11,598	24,527	78,660	6,091	183,550
EBITDA	**8,118**	**10,466**	**9,557**	**9,432**	**1,267**	**9,752**	**(9,031)**	**17,169**	**6,585**	**30,761**	**1,970**	**15,990**	**40,617**	**158,151**	**(8,272)**	**302,532**
Segment assets	**87,700**	**161,695**	**77,190**	**65,830**	**44,263**	**76,232**	**33,512**	**118,272**	**54,461**	**226,796**	**27,856**	**124,263**	**351,834**	**1,532,324**	**157,491**	**3,139,719**
Including property, plant and equipment and construction in progress	67,168	154,511	60,062	54,850	28,614	63,343	23,294	86,664	44,687	187,018	24,968	101,191	318,989	1,257,406	83,610	2,556,375
Capital expenditure	11,000	10,061	11,856	9,031	3,091	5,451	3,331	13,298	4,486	27,127	3,717	11,875	31,862	135,470	8,137	289,793
Segment liabilities	**55,184**	**27,899**	**35,649**	**16,912**	**32,412**	**35,622**	**21,087**	**52,589**	**28,771**	**75,728**	**8,369**	**67,336**	**158,643**	**393,261**	**171,147**	**1,180,609**

(in millions of Russian rubles, unless otherwise stated)

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

	IDGC of Siberia and Tomskaya DC	**ROSSETI Tyumen**	**IDGC of Urals**	**IDGC of Volga**	**ROSSETI South**	**Kuban-energo**	**ROSSETI Northern Caucasus**	**IDGC of Centre and Volga**	**IDGC of North-West**	**Len-energo**	**Yantar-energo**	**IDGC of Centre**	**MOESK**	**FGC**	**Other**	**Total**
Revenue from external customers	62,209	58,496	82,116	63,486	35,887	46,397	11,758	93,750	57,564	76,156	3,205	93,640	156,395	94,632	92,064	1,027,755
Inter-segment revenue	92	111	7,509	106	507	4	5,282	126	3,559	293	4,947	234	99	145,662	49,726	218,257
Segment revenue	**62,301**	**58,607**	**89,625**	**63,592**	**36,394**	**46,401**	**17,040**	**93,876**	**61,123**	**76,449**	**8,152**	**93,874**	**156,494**	**240,294**	**141,790**	**1,246,012**
Including																
Electricity transmission	57,986	56,149	67,897	62,592	34,928	45,583	14,010	88,853	40,427	68,807	5,165	90,015	145,380	213,620	11,209	1,002,621
Technological connection services	1,018	2,110	744	721	380	602	41	926	2,423	7,066	2,838	1,864	9,023	24,300	1,366	55,422
Sales of electricity and capacity	2,958	–	20,538	–	847	–	1,951	3,316	17,541	–	21	530	–	–	81,176	128,878
Other revenue	283	289	211	194	202	199	488	706	496	388	76	1,423	1,854	1,073	42,787	50,669
Revenue from leases	56	59	235	85	37	17	550	75	236	188	52	42	237	1,301	5,252	8,422
Finance income	116	92	544	346	48	91	321	133	57	332	50	68	229	10,562	487	13,476
Finance costs	(2,016)	(204)	(887)	(129)	(2,508)	(1,911)	(964)	(1,513)	(1,105)	(1,065)	(270)	(3,196)	(5,294)	(3,978)	(984)	(26,024)
Depreciation and amortisation	5,550	8,709	5,303	5,341	2,673	3,978	2,081	7,330	4,611	11,778	832	11,103	23,774	78,649	6,073	177,785
EBITDA	**9,184**	**7,375**	**7,315**	**11,353**	**6,670**	**7,169**	**834**	**21,834**	**6,782**	**26,521**	**3,572**	**16,508**	**38,052**	**156,035**	**(8,822)**	**310,382**
Segment assets	**84,109**	**156,584**	**71,940**	**63,767**	**45,122**	**75,909**	**38,059**	**114,703**	**56,417**	**214,720**	**26,800**	**122,536**	**347,573**	**1,487,063**	**141,454**	**3,046,756**
Including property, plant and equipment and construction in progress	62,897	148,825	53,972	51,517	28,180	62,535	22,402	82,217	45,020	175,177	23,053	101,461	311,632	1,201,105	75,210	2,445,203
Capital expenditure	13,886	11,468	8,329	7,752	2,205	6,950	1,865	13,735	7,576	20,982	5,272	12,716	31,257	107,210	7,025	258,228
Segment liabilities	**50,593**	**27,844**	**32,022**	**13,969**	**38,163**	**40,670**	**16,515**	**47,748**	**30,714**	**75,018**	**8,236**	**64,105**	**156,081**	**396,669**	**148,766**	**1,147,113**

(in millions of Russian rubles, unless otherwise stated)

b) Reconciliation of key indicators of reportable segment revenues, EBITDA, assets and liabilities

The reconciliation of key segment items measured as reported to the Management Board of the Group with similar items in these consolidated financial statements is presented below.

The reconciliation of segment revenue is presented below:

	Year ended 31 December 2019	**Year ended 31 December 2018**
Segment revenues	**1,255,593**	**1,246,012**
Intersegment revenue elimination	(220,804)	(218,257)
Reclassification from other income	140	585
Other adjustments	(5,286)	(6,750)
Unallocated revenues	11	12
Revenues per consolidated statement of profit or loss and other comprehensive income	**1,029,654**	**1,021,602**

Reconciliation of reportable segment EBITDA:

	Year ended 31 December 2019	**Year ended 31 December 2018**
EBITDA of reportable segments	**302,532**	**310,382**
Adjustment for allowance for expected credit losses	12,467	6,908
Adjustment for impairment of advances given	2,048	837
Provisions	(1,531)	684
Adjustments for lease	5,845	293
Adjustment for disposal of property, plant and equipment	1,522	(91)
Discounting of financial instruments	4,018	1,824
Accrual of impairment of property, plant and equipment and right-of-use assets, net	(24,489)	(8,475)
Adjustment on assets related to employee benefits	(408)	(494)
Adjustment for write-off of the other current and non-current assets	23	370
Recognition of retirement and other long-term employee benefit obligation	848	6,741
Gain on disposal of assets	8,110	–
Re-measurement of financial assets measured at fair value through other comprehensive income (transfer of re -measurement to equity)	(10,293)	(5,075)
Other adjustments	595	(5,522)
Unallocated items	(1,206)	(2,130)
	300,081	**306,252**
Depreciation of property, plant and equipment and right-of-use-assets, amortization of intangible assets	(129,413)	(116,124)
Interest expenses on financial liabilities at amortised cost	(25,850)	(23,747)
Interest expenses on lease liabilities	(3,090)	(250)
Income tax expense	(36,436)	(41,453)
Profit for the period per consolidated statement of profit or loss and other comprehensive income	**105,292**	**124,678**

(in millions of Russian rubles, unless otherwise stated)

The reconciliation of reportable segment total assets is presented below:

	Year ended 31 December 2019	Year ended 31 December 2018
Total segment assets	**3,139,719**	**3,046,756**
Intersegment balances	(138,124)	(134,013)
Intersegment financial assets	(57,655)	(50,852)
Adjustment for net book value of property, plant and equipment	(70,987)	(102,074)
Impairment of property, plant and equipment	(365,998)	(359,547)
Recognition of right-of-use-assets	36,669	–
Recognition of assets related to employee benefits	5,808	6,216
Investments accounted for using the equity method	532	669
Adjustment for allowance for expected credit losses	55,689	41,375
Adjustment for impairment of advances given	(209)	(1,855)
Adjustment for inventories valuation	(39)	(47)
Deferred tax assets adjustment	(14,089)	(10,343)
Other adjustments	(24,351)	(8,709)
Unallocated items	82,614	91,056
Total assets per consolidated statement of financial position	**2,649,579**	**2,518,632**

The reconciliation of reportable segment total liabilities is presented below:

	Year ended 31 December 2019	Year ended 31 December 2018
Total segment liabilities	**1,180,609**	**1,147,113**
Intersegment balances	(134,697)	(130,659)
Adjustment for deferred tax liabilities	(36,534)	(38,389)
Accrual of retirement and other long-term employee benefit obligation	27,800	23,592
Recognition of lease liabilities	38,209	780
Accrued salaries and wages to employees	63	139
Other provisions and accruals	877	232
Other adjustments	(16,878)	(11,709)
Unallocated items	6,025	32,571
Total liabilities per consolidated statement of financial position	**1,065,474**	**1,023,670**

c) Major customer:

In 2019 the Inter RAO Group (consisting primarily of electricity sales companies within the Inter RAO Group) was a major customer of the Group. Total revenue from companies of the Inter RAO Group amounted to RUB 253,877 million for the year ended 31 December 2019 (RUB 241,350 million for the year ended 31 December 2018).

(in millions of Russian rubles, unless otherwise stated)

9 Revenue

	Year ended 31 December	
	2019	**2018**
Electricity transmission	860,852	826,241
Sales of electricity and capacity	100,291	119,915
Technological connection services	48,674	52,563
Other revenue	17,046	19,755
	1,026,863	**1,018,474**
Revenue from leases	2,791	3,128
	1,029,654	**1,021,602**

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

10 Other income and other expenses

	Year ended 31 December	
	2019	**2018**
Income in the form of fines and penalties on commercial contracts	12,890	14,994
Gain on disposal of assets	8,110	–
Gain on compensation of losses in connection with retirement / liquidation of electric grid assets	4,122	3,133
Gain on from identified non-contracted electricity consumption	2,686	3,083
Gain on acquisition of subsidiaries (Note 6)	1,036	–
Gain on derecognition of subsidiary	–	690
Other income	3,122	4,270
	31,966	**26,170**

Gain on disposal of assets in the amount of RUB 8,110 million is recognised under exchange agreement with JSC “Far Eastern Energy Management Company”.

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

As at 1 January 2019 the Group has recognized disposal of property, plant and equipment with the carrying value of RUB 16,045 million, accounts receivable with the value of RUB 5,372 million, and at the same time recognised additions to property, plant and equipment at fair value of RUB 34,564 million, long-term accounts payable at fair value of RUB 2,713 million and short-term accounts payable at fair value of RUB 2,384 million at initial recognition. The Group also recognised VAT recoverable amounted to RUB 2,394 million. Fair value of long-term accounts payable has been determined using present value technique based on estimated future cash flows at the discount rate of 9.00%.

Other expenses include expenses from the disposal of property, plant and equipment in the amount of RUB 4,860 million for the year ended 31 December 2019 (for the year ended 31 December 2018: RUB 2,815 million).

(in millions of Russian rubles, unless otherwise stated)

11 Operating expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Personnel costs	201,274	187,386
Depreciation of property, plant and equipment and right-of-use-assets, amortization of intangible assets	129,413	116,124
Material expenses, including:		
Electricity for compensation of losses	150,743	148,070
Electricity for sale	60,691	67,069
Purchased electricity and heat power for own needs	4,057	4,344
Other material costs	30,709	39,679
Production work and services, including:		
Electricity transmission services	155,396	153,261
Repair and maintenance services	15,657	14,420
Other works and industrial services	11,858	13,369
Taxes and levies other than income tax	27,076	31,762
Short term lease/lease	3,490	7,163
Insurance	2,371	2,325
Other third-party services, including:		
Communication services	2,726	2,485
Security services	5,012	4,891
Consulting, legal and audit services	3,305	3,282
Software costs and servicing	2,704	2,548
Transportation services	2,777	2,877
Other services	9,912	9,088
Provisions	17,340	4,952
Other expenses	21,771	20,660
	858,282	**835,755**

(in millions of Russian rubles, unless otherwise stated)

12 Personnel costs

	Year ended 31 December	
	2019	**2018**
Wages and salaries	151,406	145,381
Social security contributions	43,569	41,441
(Gain) related to defined benefit plan	(8)	(5,750)
Expenses related to other long-term employee benefits	64	13
Other	6,243	6,301
	201,274	**187,386**

The amount of contributions to the defined contribution plan was RUB 31,850 million for the year ended 31 December 2019 (for the year ended 31 December 2018: RUB 29,548 million).

The amounts of remuneration to the key management personnel are disclosed in Note 36 “Related party transaction”.

13 Finance income and costs

	Year ended 31 December	
	2019	**2018**
Finance income		
Depreciation of discount of financial assets	9,569	6,837
Interest income on loans, bank deposits and accounts, and promissory notes	9,371	7,462
Dividends	1,467	2,254
Effect on initial discounting of financial liabilities	927	499
Interest income on assets related to employee benefits plans	39	20
Other finance income	368	545
	21,741	**17,617**

Finance costs		
Interest expenses on financial liabilities measured at amortized cost	25,850	23,747
Interest expenses on lease liabilities	3,090	250
Interest expenses on long-term defined benefit liabilities	1,691	2,093
Other finance costs	1,065	1,427
	31,696	**27,517**

(in millions of Russian rubles, unless otherwise stated)

14 Income tax

	Year ended 31 December 2019	Year ended 31 December 2018
Current income tax		
Accrual of current tax	(23,686)	(27,553)
Adjustment for previous periods tax	(65)	153
Total	**(23,751)**	**(27,400)**
Deferred income tax		
Accrual and reversal of temporary differences	(12,685)	(14,053)
Total	**(12,685)**	**(14,053)**
Total income tax expense	**(36,436)**	**(41,453)**

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 measured at fair value through other comprehensive income	9,865	(1,357)	8,508	1,667	6,742	8,409
Foreign currency translation differences	(228)	–	(228)	178	–	178
Remeasurements of the defined benefit liability	(5,056)	626	(4,430)	2,381	(582)	1,799
	4,581	**(731)**	**3,850**	**4,226**	**6,160**	**10,386**

As at 31 December 2019 and 31 December 2018, deferred income tax assets and liabilities are calculated (primarily) at the rate of 20%, which is expected to be applicable to the disposal of the related assets and liabilities. Deferred assets and liabilities arising from individual investments in equity instruments are calculated at the rate of 13%. Some of the companies of the Group use income tax benefit as reduced income tax rate provided in accordance with regional legislation.

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

	Year ended 31 December 2019	Year ended 31 December 2018
Profit before income tax	**141,728**	**166,131**
Theoretical income tax expense at the rate of 20%	**(28,346)**	**(33,226)**
Effect of income taxed at lower rates	735	14
Tax effect on not taxable or non-deductible for tax purposes items	(4,049)	(6,208)
Adjustments for prior years	(65)	153
Change in unrecognized deferred tax assets	(4,711)	(2,186)
	(36,436)	**(41,453)**

(in millions of Russian rubles, unless otherwise stated)

15 Property, plant and equipment

	Land plots and buildings	Electricity trans-mission grids	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/Deemed cost						
At 1 January 2018	**264,535**	**1,272,832**	**1,071,849**	**310,344**	**396,878**	**3,316,438**
Reclassification between groups	(353)	(24)	354	23	–	–
Additions	625	2,473	1,905	8,202	238,743	251,948
Transfers	13,548	111,818	112,754	28,972	(267,092)	–
Reclassification to assets held for sale	(130)	(14,859)	(14,388)	(1,892)	–	(31,269)
Disposals	(510)	(1,421)	(1,354)	(1,882)	(7,259)	(12,426)
At 31 December 2018	**277,715**	**1,370,819**	**1,171,120**	**343,767**	**361,270**	**3,524,691**
Accumulated depreciation and impairment						
At 1 January 2018	**(84,064)**	**(582,657)**	**(508,478)**	**(196,573)**	**(67,588)**	**(1,439,360)**
Reclassification between groups	45	(2,833)	(6,363)	(381)	9,532	–
Depreciation charge	(9,257)	(40,768)	(40,878)	(22,115)	–	(113,018)
Reclassification to assets held for sale	35	6,047	7,684	1,422	–	15,188
Disposals	124	591	983	1,982	381	4,061
Impairment	(767)	(3,408)	(2,015)	(816)	(682)	(7,688)
At 31 December 2018	**(93,884)**	**(623,028)**	**(549,067)**	**(216,481)**	**(58,357)**	**(1,540,817)**
Net book value						
At 1 January 2018	**180,471**	**690,175**	**563,371**	**113,771**	**329,290**	**1,877,078**
At 31 December 2018	**183,831**	**747,791**	**622,053**	**127,286**	**302,913**	**1,983,874**

(in millions of Russian rubles, unless otherwise stated)

	Land plots and buildings	**Electricity trans-mission grids**	**Equipment for electricity transmission**	**Other**	**Construction in progress**	**Total**
Cost/Deemed cost						
At 31 December 2018	**277,715**	**1,370,819**	**1,171,120**	**343,767**	**361,270**	**3,524,691**
Reclassification to right-of-use assets	(156)	(314)	(1,422)	(1,028)	–	(2,920)
At 1 January 2019	**277,559**	**1,370,505**	**1,169,698**	**342,739**	**361,270**	**3,521,771**
Reclassification between groups	(7,302)	10	7,180	112	–	–
Additions	2,237	31,757	8,659	14,074	229,119	285,846
Acquisition of subsidiaries	3,417	1,910	403	499	78	6,307
Transfers	17,141	87,762	72,916	36,208	(214,027)	–
Reclassification to assets held for sale	–	–	–	–	(335)	(335)
Disposals	(389)	(1,882)	(2,541)	(2,824)	(9,570)	(17,206)
At 31 December 2019	**292,663**	**1,490,062**	**1,256,315**	**390,808**	**366,535**	**3,796,383**
Accumulated depreciation and impairment						
At 31 December 2018	**(93,884)**	**(623,028)**	**(549,067)**	**(216,481)**	**(58,357)**	**(1,540,817)**
Reclassification to right-of-use assets	14	68	90	446	–	618
At 1 January 2019	**(93,870)**	**(622,960)**	**(548,977)**	**(216,035)**	**(58,357)**	**(1,540,199)**
Reclassification between groups	3,956	(1,429)	(10,257)	(1,758)	9,488	–
Depreciation charge	(9,599)	(44,228)	(43,274)	(24,114)	–	(121,215)
Reclassification to assets held for sale	–	–	–	–	22	22
Disposals	132	1,387	2,281	2,685	1,028	7,513
Impairment	(1,806)	(9,127)	(5,862)	(943)	(5,118)	(22,856)
At 31 December 2019	**(101,187)**	**(676,357)**	**(606,089)**	**(240,165)**	**(52,937)**	**(1,676,735)**
Net book value						
At 1 January 2019	**183,689**	**747,545**	**620,721**	**126,704**	**302,913**	**1,981,572**
At 31 December 2019	**191,476**	**813,705**	**650,226**	**150,643**	**313,598**	**2,119,648**

As at 31 December 2019, construction in progress includes advance payments for purchase of property, plant and equipment of RUB 21,838 million (31 December 2018: RUB 23,187 million) and materials for the property, plant and equipment of RUB 9,220 million (31 December 2018: RUB 10,155 million).

Capitalized borrowing costs for the year ended 31 December 2019 amounted to RUB 16,251 million (for the year ended 31 December 2018: RUB 15,385 million), with capitalization rates of 6.01 – 9.39% (for the year ended 31 December 2018: 5.33 – 10.73%).

The depreciation charge for the year ended 31 December 2019 in the amount of RUB 378 million (for the year ended 31 December 2018: RUB 91 million) has been capitalized to the cost of the capital construction objects.

As of 31 December 2019, fixed assets pledged as collateral for a loan amounted of RUB 38 million. As of 31 December 2018 there were no fixed assets pledged as collateral for loans and borrowings.

Impairment

As at 31 December 2019 the Group performed an impairment test for the cash generating units (CGU) and recognized an impairment loss in the amount of RUB 30,380 million, including impairment loss on property, plant and equipment in the amount of RUB 29,605 million (as at 31 December 2018: RUB 12,242 million), and also an impairment loss on right-of-use assets in the amount of RUB 775 million. At the same time, recognised as at 31 December 2019 and partially amortized impairment loss on property, plant and equipment was reversed in the amount of RUB 6,749 million (as at 31 December 2018 RUB: 4,554 million).

Recoverable amount for all CGU's, as value in use, was calculated using the discounting rate, determined as the weighted average cost of capital (WACC) within the range of 8.57% – 9.03% (2018: 9.48% – 10.00%).

(in millions of Russian rubles, unless otherwise stated)

16 Intangible assets

	Software	**Licenses, certificates and patents**	**Other**	**Total**
Cost				
At 1 January 2018	**23,173**	**720**	**10,732**	**34,625**
Reclassification between groups	166	(2)	(164)	–
Additions	4,730	259	1,180	6,169
Disposals	(2,628)	(74)	(656)	(3,358)
At 31 December 2018	**25,441**	**903**	**11,092**	**37,436**
Accumulated amortization and impairment				
At 1 January 2018	**(13,847)**	**(140)**	**(3,880)**	**(17,867)**
Amortization charge	(2,453)	(76)	(675)	(3,204)
Disposals	2,624	74	82	2,780
At 31 December 2018	**(13,676)**	**(142)**	**(4,473)**	**(18,291)**
Net book value				
At 1 January 2018	**9,326**	**580**	**6,852**	**16,758**
At 31 December 2018	**11,765**	**761**	**6,619**	**19,145**
Cost				
At 1 January 2019	**25,441**	**903**	**11,092**	**37,436**
Reclassification between groups	216	349	(565)	–
Additions	3,585	727	1,261	5,573
Disposals	(1,202)	(32)	(1,268)	(2,502)
At 31 December 2019	**28,040**	**1,947**	**10,520**	**40,507**
Accumulated amortization and impairment				
At 1 January 2019	**(13,676)**	**(142)**	**(4,473)**	**(18,291)**
Reclassification between groups	(47)	(288)	335	–
Amortization charge	(3,137)	(134)	(715)	(3,986)
Disposals	1,050	33	335	1,418
At 31 December 2019	**(15,810)**	**(531)**	**(4,518)**	**(20,859)**
Net book value				
At 1 January 2019	**11,765**	**761**	**6,619**	**19,145**
At 31 December 2019	**12,230**	**1,416**	**6,002**	**19,648**

Capitalized borrowing costs for the year ended 31 December 2019 amounted to RUB 28 million (for the year ended 31 December 2018: RUB 59 million), with capitalization rates of 7.72 – 8.40% (for the year ended 31 December 2018: 7.68 – 8.28%).

(in millions of Russian rubles, unless otherwise stated)

17 Right-of-use assets

	Land plots and buildings	Electricity transmission grids	Equipment for electricity transmission	Other	Total
Cost					
At 1 January 2019	**24,282**	**3,855**	**4,817**	**1,713**	**34,667**
Reclassification between groups	(39)	121	(93)	11	–
Additions	4,741	1,939	1,076	505	8,261
Change of lease agreement terms	(868)	717	352	19	220
Disposal or termination of lease agreements	(472)	(59)	(47)	(36)	(614)
At 31 December 2019	**27,644**	**6,573**	**6,105**	**2,212**	**42,534**
Accumulated depreciation and impairment					
At 1 January 2019	**(51)**	**(280)**	**(289)**	**(459)**	**(1,079)**
Reclassification between groups	–	(26)	24	2	–
Depreciation charge	(2,720)	(814)	(930)	(136)	(4,600)
Change of lease agreement terms	177	178	71	2	428
Disposal or termination of lease agreements	143	10	1	7	161
Impairment	(57)	(481)	(237)	–	(775)
At 31 December 2019	**(2,508)**	**(1,413)**	**(1,360)**	**(584)**	**(5,865)**
Net book value					
At 1 January 2019	**24,231**	**3,575**	**4,528**	**1,254**	**33,588**
At 31 December 2019	**25,136**	**5,160**	**4,745**	**1,628**	**36,669**

For the purpose of the impairment test the specialized right-of-use assets (including rented land plots for own and rented specialized fixed assets) were treated as own non-current assets within cash generating units (CGU). Value in use of such right-of-use assets as at 31 December 2019 was determined by using the discounted cash flow method.

For information regarding impairment test see Note 15 “Property, plant and equipment”.

(in millions of Russian rubles, unless otherwise stated)

18 Other financial assets

	31 December 2019	31 December 2018
Non-current		
Financial assets measured at amortised cost	3,360	3,209
Financial assets measured at fair value through other comprehensive income	45,620	37,922
Investments in quoted equity instruments	_45,507_	_37,809_
Investments in unquoted equity instruments	_113_	_113_
Financial assets measured at fair value through profit or loss	247	431
	49,227	**41,562**
Current		
Financial assets measured at amortised cost	57,592	47,192
	57,592	**47,192**

Investments in quoted equity instruments include shares of PJSC “Inter RAO”. Fair value of these shares is based on published market quotations and amounted to RUB 45,190 million as of 31 December 2019 (as of 31 December 2018: RUB 37,572 million).

On 29 June 2018 the Group has concluded sales agreements to sell 10,440,000 thousand shares or 10% out of its 18.57% share in Charter capital of PJSC “Inter RAO” to JSC “Inter RAO Capital” (6,608,643 thousand shares or 6.33%), “DVB Leasing” LLC (3,132,000 thousand shares or 3%) and “Praktika” LLC (699,357 thousand shares or 0.67%) for the price of RUB 3.3463 per share. As at 31 December 2018 6,608,643 and 3,132,000 thousand shares of PJSC “Inter RAO” were transferred to JSC “Inter RAO Capital” and “DVB Leasing” LLC respectively.

During the year ended 31 December 2018 the Group has reclassified 6,608,643 and 3,132,000 thousand shares sold to JSC “Inter RAO Capital” and “DVB Leasing” LLC respectively from Level 1 to Level 3 fair value hierarchy.

The fair value of shares sold as single lot has been determined based on independent appraiser report by applying income approach with due account for volume discount and payment by instalments in 2019.

During the year ended 31 December 2018 the Group has recognised change in fair value for financial investments amounted to RUB 2,957 million relating to the part of financial investment in PJSC “Inter RAO” shares sold to JSC “Inter RAO Capital” and “DVB Leasing” LLC on 29 June 2018 and on 31 July 2018 respectively. Accumulated revaluation reserve relating to shares disposed and amounted to RUB 18,629 million has been reclassified from reserves to retained earnings.

As at 31 December 2019 699,357 thousand shares of PJSC “Inter RAO” were transferred to “Praktika” LLC.

During the year ended 31 December 2019, the Group has reclassified 699,357 thousand shares sold to “Praktika” LLC from Level 1 to Level 3 fair value hierarchy.

During the year ended 31 December 2019 the Group has recognised revaluation loss for financial investments amounted to RUB 548 million relating to the part of financial investment in PJSC “Inter RAO” shares sold to “Praktika” LLC on 03 June 2019. Accumulated revaluation reserve relating to shares disposed and amounted to RUB 1,338 million has been reclassified from reserves to retained earnings.

(in millions of Russian rubles, unless otherwise stated)

Financial assets measured at amortised cost at 31 December 2019 and 31 December 2018 are mainly represented by bank deposits with an original maturity of more than three months:

	Interest rate at 31 December 2019	**Rating****	**Rating agency**	**31 December 2019**	**31 December 2018**
VTB Bank (PJSC)*	5.82–7.35	BBB-	Standart & Poor's	37,936	22,231
JSC Russian Agricultural Bank*	6.50–7.20	BBB-	Fitch Ratings	15,228	1,722
Bank GPB (JSC)*	6.20	BB+	Standart & Poor's	4,221	7,443
OJSC Bank Tavrichesky	0.51	–	–	3,131	2,886
JSC Alfa-Bank	5.85	BB+	Standart & Poor's	70	1,196
PJSC Sberbank*	6.60–6.64	BBB	Fitch Ratings	7	14,595
				60,593	**50,073**

* Government-related entities

(in millions of Russian rubles, unless otherwise stated)

19 Deferred tax assets and liabilities

The differences between IFRS and Russian tax regulations give rise to temporary differences between the accounting value of certain assets and liabilities for financial reporting purposes and the income tax for taxation purposes.

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	7,307	6,489	(112,057)	(92,249)	(104,750)	(85,760)
Intangible assets	448	389	(250)	(282)	198	107
Right-of-use assets	2	–	(6,952)	–	(6,950)	–
Financial assets measured at amortised cost	5,983	6,037	–	–	5,983	6,037
Financial assets measured at fair value through other comprehensive income	25	70	(3,611)	(2,248)	(3,586)	(2,178)
Financial assets measured at fair value through profit or loss	32	35	–	–	32	35
Inventories	304	218	(55)	(172)	249	46
Trade and other receivables	20,955	17,117	(553)	(985)	20,402	16,132
Advances given and other assets	2,386	2,071	(31)	(4)	2,355	2,067
Lease liabilities	7,565	149	(89)	(3)	7,476	146
Loans and borrowings	–	–	(201)	(229)	(201)	(229)
Provisions	6,185	3,812	(1)	(1)	6,184	3,811
Employee benefit liabilities	2,250	1,968	(36)	(126)	2,214	1,842
Trade and other payables	2,623	2,317	(1,102)	(173)	1,521	2,144
Advances received	1	–	–	–	1	–
Tax loss carry-forwards	5,373	4,919	–	–	5,373	4,919
Asset held for sale	–	–	(63)	(4,293)	(63)	(4,293)
Other	582	1,322	(310)	(1,151)	272	171
Tax assets/(liabilities)	**62,021**	**46,913**	**(125,311)**	**(101,916)**	**(63,290)**	**(55,003)**
Set off of tax	(33,433)	(25,276)	33,433	25,276	–	–
Unrecognized deferred tax assets	(16,343)	(11,547)	–	–	(16,343)	(11,547)
Net tax assets/(liabilities)	**12,245**	**10,090**	**(91,878)**	**(76,640)**	**(79,633)**	**(66,550)**

(in millions of Russian rubles, unless otherwise stated)

b) Unrecognized deferred tax liabilities

At 31 December 2019, a deferred tax liability for temporary differences of RUB 257,346 million (31 December 2018: RUB 225,034 million) related to an investment in subsidiaries was not recognized as the Group is able to control the timing of the reversal of this temporary difference and it is probable that this temporary difference will not reverse in the foreseeable future.

c) Unrecognized deferred tax assets

Deferred tax assets with respect to tax losses and temporary differences were not recognized, as for a number of unprofitable companies of the Group there is no high probability of future taxable profit against which the corresponding temporary differences and tax losses can be utilized.

Deferred tax assets have not been recognized with respect to the following:

	31 December 2019	**31 December 2018**
Deductible temporary differences	50,970	37,286
Tax losses	30,750	20,449
Total	**81,720**	**57,735**
Unrecognized deferred tax assets at the applicable tax rate	**16,344**	**11,547**

(in millions of Russian rubles, unless otherwise stated)

d) Movement in deferred tax assets and liabilities during the year

	1 January 2019	**Acquired as part of a business combination**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Recognized at Capital**	**31 December 2019**
Property, plant and equipment	(85,760)	322	(19,312)	–	–	(104,750)
Intangible assets	107	–	91	–	–	198
Right-of-use assets	–	(458)	(6,579)	–	87	(6,950)
Financial assets measured at amortised cost	6,037	–	(54)	–	–	5,983
Financial assets measured at fair value through other comprehensive income	(2,178)	–	(51)	(1,357)	–	(3,586)
Financial assets measured at fair value through profit or loss	35	–	(3)	–	–	32
Inventories	46	(1)	204	–	–	249
Trade and other receivables	16,132	1	4,269	–	–	20,402
Advances given and other assets	2,067	–	288	–	–	2,355
Lease liabilities	146	455	6,875	–	–	7,476
Loans and borrowings	(229)	–	28	–	–	(201)
Provisions	3,811	4	2,369	–	–	6,184
Employee benefit liabilities	1,842	–	(254)	626	–	2,214
Trade and other payables	2,144	6	(629)	–	–	1,521
Advances received	–	–	1	–	–	1
Tax loss carry-forwards	4,919	9	445	–	–	5,373
Asset held for sale	(4,293)	–	4,230	–	–	(63)
Other	171	(7)	108	–	–	272
Unrecognized deferred tax assets	(11,547)	–	(4,711)	–	(85)	(16,343)
	(66,550)	**331**	**(12,685)**	**(731)**	**2**	**(79,633)**

(in millions of Russian rubles, unless otherwise stated)

	1 January 2018	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**31 December 2018**
Property, plant and equipment	(73,805)	(11,955)	–	(85,760)
Intangible assets	254	(147)	–	107
Financial assets measured at amortised cost	6,091	(54)	–	6,037
Financial assets measured at fair value through other comprehensive income	(8,963)	43	6,742	(2,178)
Financial assets measured at fair value through profit or loss	–	35	–	35
Inventories	149	(103)	–	46
Trade and other receivables	11,886	4,246	–	16,132
Advances given and other assets	1,831	236	–	2,067
Finance lease liabilities	185	(39)	–	146
Loans and borrowings	(229)	–	–	(229)
Provisions	3,339	472	–	3,811
Employee benefit liabilities	3,361	(937)	(582)	1,842
Trade and other payables	2,279	(135)	–	2,144
Tax loss carry-forwards	4,395	524	–	4,919
Asset held for sale	–	(4,293)	–	(4,293)
Other	(69)	240	–	171
Unrecognized deferred tax assets	(9,361)	(2,186)	–	(11,547)
	(58,657)	**(14,053)**	**6,160**	**(66,550)**

20 Inventories

	31 December 2019	**31 December 2018**
Raw materials and supplies	20,564	20,082
Allowance for impairment of raw materials and supplies	(540)	(439)
Other inventories	17,623	17,783
Allowance for impairment of other inventories	(319)	(317)
	37,329	**37,109**

As at 31 December 2019 and 31 December 2018, the Group has no pledged inventories in accordance with loan or other agreements as collateral.

(in millions of Russian rubles, unless otherwise stated)

21 Trade and other receivables

	31 December 2019	31 December 2018
Non-current trade and other accounts receivable		
Trade receivables	75,486	76,825
Allowance for expected credit losses on trade receivables	(555)	(409)
Other receivables	2,098	1,773
Allowance for expected credit losses on other receivables	(251)	(240)
Loans given	104	119
Total financial assets	**76,882**	**78,068**
Current trade and other accounts receivable		
Trade receivables	223,724	219,200
Allowance for expected credit losses on trade receivables	(109,619)	(100,307)
Other receivables	37,852	62,810
Allowance for expected credit losses on other receivables	(25,240)	(20,368)
Loans given	265	284
Allowance for expected credit loss on current loans given	(155)	(154)
Total financial assets	**126,827**	**161,465**

Long-term trade receivables mainly relate to the contracts of technological connection that imply deferred inflow of cash for the provided services (as at 3 December 2019: RUB 69,166 million, as at 31 December 2018: RUB 67,994 million) and to restructured balances receivable for electricity transmission services.

As at 31 December 2018 other receivables includes RUB 28,389 million due from JSC “Inter RAO Capital” and “DVB Leasing” LLC under the share of PJSC “Inter RAO” sales agreements (Note 18 “Other financial assets”).

Information regarding exposure credit risk, currency risk, impairment of accounts trade and other receivables, and fair value is disclosed in Note 33 “Financial risk and capital management”.

22 Advances given and other assets

	31 December 2019	31 December 2018
Non-current assets		
Advances given	7,461	7,299
Advances given impairment allowance	(7,219)	(6,922)
VAT on advances received	6,422	4,076
	6,664	**4,453**
Current assets		
Advances given	11,750	13,375
Advances given impairment allowance	(5,563)	(7,430)
VAT recoverable	2,227	3,464
VAT on advances received and VAT on advances given for purchase of property, plant and equipment	8,818	8,725
Prepaid taxes, other than income tax	920	1,020
	18,152	**19,154**

(in millions of Russian rubles, unless otherwise stated)

23 Cash and cash equivalents

	31 December 2019	31 December 2018
Cash at banks and in hand	34,436	53,063
Cash equivalents	44,577	30,993
	79,013	**84,056**

	Rating	Rating agency	31 December 2019	31 December 2018
Bank GPB (JSC)*	BB+	Standart & Poor's	13,425	13,915
PJSC Sberbank*	BBB	Fitch Ratings	6,487	7,545
JSC AB ROSSIYA	A+(RU)	ACRA	4,793	12,578
VTB Bank (PJSC)*	BBB-	Standart & Poor's	3,130	10,571
PJSC RNCB*	A(RU)	ACRA	2,548	2,234
UFK*	–	–	1,581	4,234
JSC «Alfa-Bank»	BB+	Fitch Ratings	1,339	840
Russian Regional Development Bank*	Ba2	Moody's	127	896
JSC Russian Agricultural Bank*	BBB-	Fitch Ratings	101	51
Other banks	–	–	837	159
Cash in hand			68	40
			34,436	**53,063**

*Government-related entities

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

	Interest rate at 31 Dcember 2019	Rating**	Rating agency	31 Dcember 2019	31 December 2018
Bank GPB (JSC)*	4.50–6.04	BB+	Standart & Poor's	21,377	474
JSC «Alfa-Bank»	6.05–6.11	BB+	Fitch Ratings	11,761	6,615
Russian Regional Development Bank*	5.00–6.05	Ba2	Moody's	6,182	–
FK Otkritie*	5.85–6.04	Ba2	Moody's	2,804	–
VTB Bank (PJSC)*	4.50–5.85	BBB-	Standart & Poor's	1,176	7,193
PJSC Sberbank*	3.69–5.70	BBB	Fitch Ratings	625	–
JSC Russian Agricultural Bank*	5.05–7.04	BBB-	Fitch Ratings	179	12,837
Other banks	2.25–5.65	–	–	15	3,356
				44,119	**30,475**

*Government-related entities

As at 31 December 2019 cash and cash equivalents balance included amount in foreign currency in the amount of RUB 78 million (as at 31 December 2018: RUB 88 million).

(in millions of Russian rubles, unless otherwise stated)

24 Equity

a) Share capital

	Ordinary shares		**Preference shares**	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Par value	RUB 1	RUB 1	RUB 1	RUB 1
On issue at 1 January	198,827,865,141	198,827,865,141	2,075,149,384	2,075,149,384
On issue at the end of the year and fully paid	198,827,865,141	198,827,865,141	2,075,149,384	2,075,149,384

b) Ordinary and preference shares

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 the legislation of the Russian Federation. Preference shares are recognized in equity. These shares are non-convertible, non-cumulative and non-redeemable.

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

Preference shares carry the right to vote on all issues within the competence of General shareholders' meetings following the Annual Shareholders' Meeting at which a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at General shareholders' meetings ceases from the date of the first full payment of dividends on such shares.

The preference shares also carry the right to vote, but this right is limited according to the amendments of the Company's Charter, which includes reorganization and liquidation as well as the delisting of preference shares.

The owners of both ordinary and preference shares have the preemptive right to purchase additional Company's shares placed through an open subscription, in an amount proportional to the number of this type of shares held.

In the case of liquidation of the Company, accrued but not paid dividends on preference shares and the liquidation value specified by the Charter for preference shares are paid. After that the assets are distributed among the shareholders - owners of ordinary and preference shares.

Preference shares are included in the calculation of the weighted average number of outstanding shares used in the calculation of basic and diluted earnings per share (Note 25 “Earnings per share”).

c) Dividends

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

On 27 June 2019 the Annual General Meeting of Shareholders decided not to pay dividends on preference and ordinary shares of PJSC "ROSSETI" on the results of 2018 and to pay dividends on preference and ordinary shares of PJSC "ROSSETI" for the first quarter of 2019 in the amount of RUB 5,023 million (for preference shares in the amount of 0.07997 RUB per one preference share and on ordinary shares in the amount of 0.02443 RUB per one ordinary share).

(in millions of Russian rubles, unless otherwise stated)

d) Treasury shares

Information regarding treasury shares is presented below:

31 December 2019			31 December 2018		
Number of shares, mln.		Cost, mln. RUB	Number of shares, mln.		Cost, mln. RUB
Ordinary	Preference		Ordinary	Preference	
3	308	109	3	308	109

e) Changes in shares in subsidiaries

During the reporting period the Group acquired additional issue of shares in a number of subsidiaries.

The most significant ones are described below:

– Additional issue of shares by PJSC “Kubanenergo”

During 2019 the Group acquired 30,864,487 shares of additional issue of securities as a part of the implementation of the program for increasing the Charter capital of PJSC “Kubanenergo”. The shares were paid in cash in the amount of RUB 3,086 million. Following the issue of shares of PJSC “Kubanenergo” the Group's ownership interest increased from 92.78% to 93.44%. The Group recognized a decrease in retained earnings and an increase in non-controlling interest of RUB 7 million and RUB 9 million respectively.

– Additional issue of shares by PJSC “ROSSETI Northern Caucasus”

During 2019 the Group acquired 37,861,258 ordinary shares of additional issue of securities as a part of the implementation of the program for increasing the Charter capital of PJSC “ROSSETI Northern Caucasus”. Shares were subscribed by the Group for RUB 661 million paid in cash. Following the issue of shares of PJSC “ROSSETI Northern Caucasus” the Group's ownership interest increased to 98.77%. The Group recognized an increase in retained earnings and a decrease in non-controlling interest of RUB 3 million and RUB 0.6 million respectively.

– Additional issue of shares by JSC “Chechenenergo”

In 2019 during the course of the additional issue of shares by JSC “Chechenenergo” 1,333,802,459 ordinary shares were placed. Of these 1,193,324,569 were acquired by the Group. Shares were subscribed by the Group for RUB 1,193 million paid in cash. The remaining part of the securities in the amount of 140,477,890 shares was purchased by the Ministry of Property and Land Relations of the Republic of Chechnya by depositing fixed assets worth RUB 140 million into the Charter capital. As the result of the placement of additional shares of JSC “Chechenenergo” the Group's ownership interest increased to 73.65%. The Group recognized an increase in retained earnings and in non-controlling interest of RUB 37 million and RUB 103 million respectively.

– Additional issue of shares by PJSC “ROSSETI South”

During 2019 the Group acquired 82,600,538,248 shares of additional issue of securities by PJSC “ROSSETI South”. Shares were subscribed by the Group for RUB 8,260 million paid in cash. Taking into account the actually placed shares of the current issue of PJSC “ROSSETI South” the Group's ownership interest increased to 84.12%. The Group recognized a decrease in retained earnings and an increase in non-controlling interest of RUB 1,298 million and RUB 1,337 million respectively.

25 Earnings per share

The Group has revised the approach to calculating earnings per share by adopting for the purposes of determining the denominator the number of shares attributable to holders of the Company's shares (previously – attributable to holders of ordinary shares of the Company). To calculate earnings per share, the Group divides earnings attributable to the owners of the Company by the weighted average number of ordinary and preference shares outstanding for the reporting period. The change in approach did not have a significant impact on the indicator for the previous reporting period (the indicator "Earnings per share - basic and diluted (in Russian rubles)" for the year ended 31 December 2018: initial presentation – 0.46 RUB, restated – 0.45 RUB)).

In millions of shares	**2019**	**2018**
Issued ordinary and preference shares at 1 January	200,903	200,903
Effect of own shares held	(3)	(3)
Weighted average number of shares for the period ended 31 December	**200,900**	**200,900**

	2019	**2018**
Weighted average number of shares for the period ended 31 December (in millions of shares)	200,900	200,900
Profit for the period attributable to the owners of the Company	76,773	90,985
Earnings per share (in RUB) – basic and diluted	**0.38**	**0.45**

(in millions of Russian rubles, unless otherwise stated)

26 Borrowings

	31 December 2019	31 December 2018
Non-current liabilities		
Secured loans and borrowings	359	–
Unsecured loans and borrowings	213,537	217,421
Unsecured bonds	298,374	327,387
Lease liabilities	38,209	1,952
Less: current portion of long-term lease liabilities	(5,550)	(467)
Less: current portion of long-term loans and borrowings	(28,493)	(28,442)
Less: current portion of long-term bonds	(51,727)	(36,862)
	464,709	**480,989**
Current liabilities		
Unsecured loans and borrowings	11,635	21,138
Promissory notes	293	359
Current portion of long-term lease liabilities	5,550	467
Current portion of long-term loans and borrowings	28,493	28,442
Current portion of long-term bonds	51,727	36,862
	97,698	**87,268**
Including:		
Interests payable on loans and borrowings	226	332
Interests payable on bonds	3,815	4,378
	4,041	**4,710**

As at 31 December 2019 and 31 December 2018 long-term and short-term liabilities on loans, bonds, promissory notes amounted to RUB 524,198 and RUB 566,305 million respectively (excluding long-term and short-term lease liabilities).

As at 31 December 2018 long-term and short-term lease liabilities amounted to RUB 1,952 million, as at 1 January 2019 and 31 December 2019 amounted to RUB 33,834 and RUB 38,209 million respectively (effect of initial application of IFRS 16 Leases as at 1 January 2019, Note 2e).

As at 31 December 2019 and 31 December 2018, loans and borrowings are nominated in roubles.

(in millions of Russian rubles, unless otherwise stated)

		Effective interest rate		Carrying value	
	Year of maturity	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Unsecured loans and borrowings					
Unsecured bank loans*	2020-2022	6.95–8.20%	7.15–9.80%	114,472	131,489
Unsecured bank loans*	2020-2022	7.40–10.00%	7.50–11.00%	38,375	47,290
Unsecured bank loans*	2021-2022	7.49–7.68%	7.20–9.80%	13,208	28,283
Unsecured bank loans*	2020-2022	Key rate of CB RF +0.98% – Key rate of CB RF +1.20%	–	9,787	–
Unsecured bank loans*	2020-2022	7.50–8.75%	7.84–10.00%	9,475	10,470
Unsecured bank loans	2022	7.10%	8.11%	8,017	3,609
Unsecured bank loans*	2020-2022	Key rate of CB RF + 1.05% – Key rate of CB RF + 2.00%	–	7,326	–
Unsecured bank loans*	2022	7.15-7.89%	–	7,219	–
Unsecured bank loans	2022	7.20–7.25%	–	5,011	–
Unsecured bank loans	2021	Key rate of CB RF +0.58%	Key rate of CB RF + 0.58%	3,002	3,002
Unsecured bank loans	2020-2021	7.34–8.10%	7.49%	2,500	2,001
Unsecured bank loans	2020-2021	Key rate of CB RF	Key rate of CB RF + 0.00% – Key rate of CB RF + 0.44%	2,005	3,107
Unsecured bank loans	2020-2022	7.53–10.00%	8.90–11.25%	1,660	3,839
Unsecured bank loans*	2022-2022	Key rate of CB RF + 1.15%	–	805	–
Unsecured bank loans	2021	6.60%	8.10%	700	700
Unsecured bank loans*	2020	Key rate of CB RF	Key rate of CB RF	503	503
Unsecured bank loans*	2020-2022	Key rate of CB RF + 0.95% – Key rate of CB RF + 1.10%	–	500	–
Secured bank loans*	2022	Key rate of CB RF +1.50%	–	359	–
Unsecured bank loans	2020-2021	10.00%	10.99–11.00%	200	400
Unsecured bank loans*	2020-2021	10.00%	10.00%	200	200
Unsecured bank loans*	2019	–	8.27%	–	3,180
Unsecured bank loans	2019	–	11.00%	–	230
Unsecured loans	2019	–	Key rate of CB RF	–	31
Unsecured bank loans	2019	–	12.5–15.5%	–	2
Unsecured loans	2025-2026	0.10 – 3.00%	0.00–3.00%	207	223
				225,531	**238,559**

(in millions of Russian rubles, unless otherwise stated)

		Effective interest rate		Carrying value	
	Year of maturity	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Unsecured loans and borrowings					
Unsecured bonds	2022-2048	(CPI **-100%) +1.00% – (CPI -100%) + 2.50%	(CPI **-100%) +1.00% – (CPI -100%) + 2.50%	110,938	110,732
Unsecured bonds	2020-2024	8.3–9.65%	8.30-10.30%	43,905	43,907
Unsecured bonds	2045-2050	(CPI -100%) + 1.00%	(CPI -100%) + 1.00%	40,340	40,294
Unsecured bonds	2021-2052	7.60–9.35%	7.60–9.35%	36,432	36,424
Unsecured bonds	2020-2028	5.00–8.50%	7.40–9.00%	20,836	22,782
Unsecured bonds	2020	0.1–8.25%	0.10–8.25%	18,208	18,204
Unsecured bonds	2022	7.00%	–	3,036	–
Unsecured bonds	2022	8.15%	8.15%	5,193	5,192
Unsecured bonds	2021	6.95%	6.95%	5,075	5,071
Unsecured bonds	2022	6.85%	–	5,033	–
Unsecured bonds	2020-2022	6.85%	–	5,015	–
Unsecured bonds	2022	7.00%	–	4,048	–
Unsecured bonds	2020-2024	–	–	315	361
Unsecured bonds	2019	–	8.45%	–	17,943
Unsecured bonds	2019	–	11.25%	–	10,117
Unsecured bonds	2019	–	10.29%	–	6,046
Unsecured bonds	2019	–	9.15%	–	5,157
Unsecured bonds	2019	–	9.15%	–	5,157
				298,374	**327,387**
Lease liabilities	2020–2103	5.66–32.89%	10.14–42.31%	**38,209**	**1,952**
Promissory notes*	on demand	0.00%	0.00%	**293**	**359**
Total debt				**562,407**	**568,257**

* Government-related entities
** Consumer price index – CPI

The Group has not entered into any hedging arrangements with respect to interest rate exposures. Information about the Group’s exposure to interest rate risk is disclosed in Note 33 “Financial risk and capital management”.

(in millions of Russian rubles, unless otherwise stated)

27 Changes in liabilities arising from financing activities

	Loans and borrowings		Interest payable, except interest payable on lease agreements	Lease liabilities	Dividends payable
	Non-current	Current			
As at 31 December 2018	**479,504**	**82,091**	**4,710**	**1,952**	**624**
Initial application of IFRS 16 Leases, Note 2e	–	–	–	31,882	–
As at 1 January 2019	**479,504**	**82,091**	**4,710**	**33,834**	**624**
Changes from financing cash flows					
Proceeds from loans and borrowings	222,546	66,176	–	–	–
Repayment of loans and borrowings	(189,788)	(140,872)	–	–	–
Repayment of lease liabilities	–	–	–	(3,222)	–
Interests paid (operating cash flows, for information)	–	–	(41,207)	(3,305)	–
Dividends paid	–	–	–	–	(15,142)
Total	**32,758**	**(74,696)**	**(41,207)**	**(6,527)**	**(15,142)**
Non-cash transactions					
Transfers	(80,578)	80,578	–	–	–
Capitalised borrowing costs	–	–	16,036	243	–
Interest expenses	–	–	24,521	3,090	–
Acquisition under lease agreements	–	–	–	8,288	–
Dividends accrued	–	–	–	–	20,313
Discounting, net	4	39	–	–	–
Other non-cash, net	362	95	(19)	(719)	(6)
Total	**(80,212)**	**80,712**	**40,538**	**10,902**	**20,307**
As at 31 December 2019	**432,050**	**88,107**	**4,041**	**38,209**	**5,789**

(in millions of Russian rubles, unless otherwise stated)

	Loans and borrowings		**Interest payable, except interest payable on lease agreements**	**Lease liabilities**	**Dividends payable**
	Non-current	**Current**			
As at 1 January 2018	**506,406**	**45,762**	**5,082**	**984**	**346**
Changes from financing cash flows					
Proceeds from loans and borrowings	379,504	235,568	–	–	–
Repayment of loans and borrowings	(341,837)	(263,873)	–	–	–
Repayment of lease liabilities	–	–	–	(145)	–
Interests paid (operating cash flows, for information)	–	–	(39,457)	(250)	–
Dividends paid	–	–	–	–	(12,684)
Total	**37,667**	**(28,305)**	**(39,457)**	**(395)**	**(12,684)**
Non-cash transactions					
Transfers	(64,596)	64,596	–	–	–
Capitalised borrowing costs	–	–	15,444	–	–
Interest expenses	–	–	23,747	250	–
Acquisition under lease agreements	–	–	–	1,117	–
Dividends accrued	–	–	–	–	12,903
Discounting, net	2	44	–	–	–
Other non-cash, net	25	(6)	(106)	(4)	59
Total	**(64,569)**	**64,634**	**39,085**	**1,363**	**12,962**
As at 31 December 2018	**479,504**	**82,091**	**4,710**	**1,952**	**624**

(in millions 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, life retirement benefits, 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 net benefits obligation	26,048	21,934
Present value of other long-term employee net benefit obligation	1,752	1,658
Total present value of employee net benefit obligation	**27,800**	**23,592**

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

	2019	2018
Value of assets at 1 January	**6,216**	**6,709**
Return on plan assets	182	20
Employer contributions	1,286	1,763
Other movements in the accounts	(320)	18
Payment of remuneration	(1,556)	(2,294)
Value of assets at 31 December	**5,808**	**6,216**

Assets related to pension plans and defined benefit plans are administrated by non-state pension funds JSC N-s PF “Otkritie”, NPF “Professional” (JSC) and JSC “NPF GAZFOND pensionnie nakoplenia”.

These assets are not the defined benefit plans' assets, because under the terms of agreements between the Group and the funds the Group has the 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 millions of Russian rubles, unless otherwise stated)

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	**21,934**	**1,658**	**31,181**	**1,536**
Current service cost	626	74	1,130	80
Past service cost and curtailments	(688)	(19)	(7,106)	68
Interest expense	1,565	126	1,989	104
Remeasurement arising from:				
– Actuarial loss/(gain) arising from demographic assumptions	463	9	(323)	(13)
– Actuarial loss/(gain) arising from financial assumptions	5,095	250	(3,909)	(188)
– Actuarial (gain)/loss arising from experience adjustment	(502)	(195)	1,851	214
Contributions to the plan	(2,445)	(151)	(2,879)	(143)
Defined benefit plan obligations as at 31 December	**26,048**	**1,752**	**21,934**	**1,658**

Expenses/income recognized in profit or loss for the period:

	Year ended 31 December 2019	Year ended 31 December 2018
Employees service cost	(7)	(5,750)
Remeasurement of other long-term employee benefit obligation	64	13
Interest expenses	1,691	2,093
Total (expenses)/income recognized in profit or loss	**1,748**	**(3,644)**

Gain/loss recognized in other comprehensive income for the period:

	Year ended 31 December 2019	Year ended 31 December 2018
Actuarial loss/(gain) arising from demographic assumptions	463	(323)
Actuarial loss/(gain) arising from financial assumptions	5,095	(3,909)
Actuarial (gain)/loss arising from experience adjustment	(502)	1,851
Total actuarial loss/(gain) recognized in other comprehensive income	**5,056**	**(2,381)**

(in millions of Russian rubles, unless otherwise stated)

Movements in remeasurement of employee benefit obligations in other comprehensive income during the year are as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Remeasurements at 1 January	**12,307**	**14,688**
Movement of remeasurements	5,056	(2,381)
Remeasurements at 31 December	**17,363**	**12,307**

The significant actuarial assumptions are as follows:

	31 December 2019	31 December 2018
Financial assumptions		
Discount rate	6.4%	8.7%
Future salary increase	4.4%	4.6%
Inflation rate	4.0%	4.1%
Demographic assumptions		
Expected age of retirement:		
Men	65	65
Women	60	60
Average level of staff movement	6.2%	6.4%

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/decrease by 0.5%	Decrease/increase by 4.9%
Future salary growth	Increase/decrease by 0.5%	Increase/decrease by 3.0%
Future growth of benefits (inflation)	Increase/decrease by 0.5%	Increase/decrease by 2.4%
Level of staff movement	Increase/decrease by 10%	Decrease/increase by 1.9%
Mortality level	Increase/decrease by 10%	Decrease/increase by 1.4%

Expected payments under the defined long-term employee benefit plans to employees in 2019 are RUB 3,435 million, including:

- RUB 3,304 million under the defined benefit plans, including non-state pension schemes;
- RUB 131 million under the other long-term employee benefit schemes.

(in millions of Russian rubles, unless otherwise stated)

29 Trade and other payables

	31 December 2019	31 December 2018
Non-current accounts payable		
Trade payables	16,349	15,849
Other payables	7,448	1,976
Total financial liabilities	**23,797**	**17,825**
Current accounts payable		
Trade payables	162,160	158,241
Other payables and accrued expenses	16,433	22,397
Payables to employees	24,303	21,306
Dividends payable	5,789	624
Total financial liabilities	**208,685**	**202,568**

As at 31 December 2019 and 31 December 2018 long-term trade accounts payable mainly relate to contracts for the purchase of property, plant and equipment in instalments.

The Group's exposure to liquidity risk related to payables is disclosed in Note 33 "Financial risk and capital management".

30 Taxes other than income tax

	31 December 2019	31 December 2018
Value-added tax	9,799	11,422
Property tax	6,666	7,085
Social security contributions	4,326	3,975
Other taxes payable	1,636	1,242
	22,427	**23,724**

31 Advances received

Non-current	31 December 2019	31 December 2018
Advances from technological connection services to electricity girds	38,668	23,888
Other advances received	3,612	2,333
	42,280	**26,221**
Current		
Advances from technological connection services to electricity girds	50,026	59,658
Other advances received	8,966	9,174
	58,992	**68,832**

(in millions of Russian rubles, unless otherwise stated)

32 Provisions

	2019	2018
Balance at 1 January	**10,901**	**10,561**
Increase for the year	19,431	8,847
Decrease due to reversal of provisions	(2,071)	(3,845)
Provisions used	(5,027)	(4,662)
Balance at 31 December	**23,234**	**10,901**

Provisions relate mainly to legal proceedings and claims against the Group in the day-to-day terms of business.

33 Financial risk and capital management

In the normal course of 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 contains information about the Group's exposure to each of these risks, discusses the objectives, policies and procedures for assessing and managing risks, and the Group's capital management system. More detailed quantitative data is disclosed in the relevant sections of these consolidated financial statements.

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

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge a contractual obligation in full and on time. Credit risk is mainly associated with the Group's receivables, 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 minimal risk of default, are considered reliable counterparties with a stable financial position in the financial market of the Russian Federation.

Given 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 an allowance for expected credit losses on trade and other receivables, the estimated value of which is determined on the basis of the model of expected credit losses, weighted by the degree of probability of default, and can be adjusted both up and down. To this end, the Group analyzes the creditworthiness of counterparties, the dynamics of debt repayment, takes into account changes in the terms of payment, the availability of third-party guarantees, bank guarantees, current general economic conditions.

The carrying amount of receivables, net of allowance for expected credit losses, represents the maximum amount exposed to credit risk. Although the repayment of receivables is subject to economic and other factors, the Group believes that there is no significant risk of losses in excess of the created allowance. Whenever possible, the Group uses a prepayment system in relations with counterparties. As a rule, an advance payment for technological connection of consumers to networks is provided for by the contract. The Group does not require collateral for receivables.

In order to effectively organize work with receivables, the Group monitors changes in the volume of receivables and its structure, highlighting current and overdue debts. In order to minimize credit risk, the Group implements measures aimed at timely fulfillment by counterparties of contractual obligations, reduction and prevention of formation of overdue debts.

Such measures, in particular, include: negotiating with consumers of services, increasing the efficiency of the process of generating the volume of electricity transmission services, ensuring the implementation of schedules of control readings and technical verification of electricity metering devices agreed with guaranteeing suppliers, limiting the mode of electricity consumption (implemented in accordance with norms of the legislation of the Russian Federation), claim work, presentation of requirements for granting a final collateral in the form of independent (bank) guarantees, sureties and other forms of securing the fulfillment of obligations.

(in millions of Russian rubles, unless otherwise stated)

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure of the Group. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	31 December 2019	**31 December 2018**
Financial assets measured at fair value through profit or loss	247	431
Financial assets measured at fair value through other comprehensive income	45,620	37,922
Loans given (less allowance for expected credit losses/allowance for impairment)	214	249
Trade and other receivables (less allowance for expected credit losses)	203,495	239,284
Cash and cash equivalents	79,013	84,056
Bank deposits	60,594	50,074
Promissory notes	358	327
	389,541	**412,343**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	31 December 2019	**31 December 2018**
North-West region	15,317	12,572
Central region	90,993	117,846
Ural and Volga region	32,089	31,155
South region	25,038	22,684
Siberian region	19,114	10,948
Other regions	6,485	104
	189,036	**195,309**

The Group's ten most significant debtors account for RUB 125,125 million of the trade receivables carrying amount at 31 December 2019 (at 31 December 2018: RUB 116,799 million).

(in millions of Russian rubles, unless otherwise stated)

The aging of trade and other receivables is provided below:

	31 December 2019		**31 December 2018**	
	Gross	**Allowance for expected credit losses**	**Gross**	**Allowance for expected credit losses**
Not past due	167,534	(6,022)	202,900	(21,548)
Past due less than 3 months	26,401	(8,409)	21,152	(3,489)
Past due more than 3 months and less than 6 months	13,596	(6,546)	12,139	(5,760)
Past due more than 6 months and less than 1 year	20,636	(14,160)	27,898	(15,050)
Past due more than 1 year	110,993	(100,528)	96,519	(75,477)
	339,160	**(135,665)**	**360,608**	**(121,324)**

The Group believes that not impaired and past due accounts receivable are recoverable with the high level of probability at the reporting date.

The movement of allowance for expected credit losses of trade and other receivables was as follows:

	2019	**2018**
Balance at 1 January	**(121,324)**	**(101,089)**
Increase for the period	(36,990)	(40,769)
Decrease due to reversal for the period	13,634	14,949
Allowance utilized	9,015	5,585
Balance at 31 December	**(135,665)**	**(121,324)**

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 attracting credit lines. The Group adheres to a balanced model of financing working capital by using both short-term and long-term sources. Free funds are 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 analyse payment dates associated with financial assets, and also to forecast cash flows from operating activities.

As of 31 December 2019, the amount of free limit on open but unused credit lines of the Group was RUB 646,450 million (31 December 2018: RUB 589,516 million). The Group has opportunity to attract additional financing within the corresponding limits, including for the purpose of execution of the short-term liabilities.

(in millions of Russian rubles, unless otherwise stated)

Information regarding the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting, is provided below. With respect to cash flows included in the maturity analysis it is not intended that it could occur significantly earlier, or at significantly different amounts:

31 December 2019	**Carrying amount**	**Contractual cash flows**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans and borrowings	225,531	279,124	54,587	104,139	118,466	1,726	2	204
Bonds	298,374	509,931	64,395	39,434	63,880	26,222	13,174	302,826
Promissory notes	293	293	293	–	–	–	–	–
Lease liabilities	38,209	70,349	6,750	4,485	3,565	3,048	3,257	49,244
Trade and other payables	232,484	232,687	207,240	14,880	2,498	2,991	3,159	1,919
	794,891	**1,092,384**	**333,265**	**162,938**	**188,409**	**33,987**	**19,592**	**354,193**

31 December 2018	**Carrying amount**	**Contractual cash flows**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans and borrowings	238,559	273,158	58,615	95,078	115,824	2,488	972	181
Bonds	327,387	577,687	55,773	70,671	35,362	56,197	26,841	332,843
Promissory notes	359	359	359	–	–	–	–	–
Finance lease liabilities	1,952	4,507	702	683	606	724	559	1,233
Trade and other payables	220,393	221,630	206,070	5,678	5,844	1,053	1,227	1,758
	788,650	**1,077,341**	**321,519**	**172,110**	**157,636**	**60,462**	**29,599**	**336,015**

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 optimising the return.

(i) Currency risk

The majority of the Group's revenues and expenditures, monetary assets and liabilities are nominated in RUB. Changes in exchange rates do not have a significant impact on the Group's revenue and expenditures.

(ii) Interest rate risk

Changes in interest rates mainly affect loans and borrowings, as they change either their fair value (for loans and borrowings with a fixed rate) or future cash flows (for loans and loans with a floating rate). The management of the Group does not adhere to any established rules in determining the relationship between loans and borrowings at fixed and floating rates. At the same time, at the time of attracting new loans, management, based on its judgment, decides whether the rate, fixed or floating, will be most beneficial for the Group for the entire settlement period until the debt repayment period.

Fair value sensitivity analysis for financial instruments with fixed interest rate

The Group does not account for any financial assets and liabilities with fixed interest rate 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.

Cash flow sensitivity analysis for financial instruments with floating interest rate

As at 31 December 2019 the Group's financial liabilities at floating interest rate amounted to RUB 173,802 million (31 December 2018: RUB 156,600 million). A reasonably possible change of 100 basis points in interest rates would have increased (decreased) profit or loss before income tax for 2019 by RUB 1,738 million (2018: by RUB 1,566 million). This analysis assumes that all other variables remain constant and interest expenses are not capitalized.

(iii) Price risk

Equity price risk arises from financial assets measured at fair value through other comprehensive income. The Management of the Group monitors its investment portfolio based on market indices. Significant investments within the portfolio are managed on an individual basis and all buy and sell decisions are taken by the management of the Group.

As at 31 December 2019 financial assets measured at fair value through other comprehensive income exposed to equity price risk amounted to RUB 45,507 million (31 December 2018: RUB 37,809 million). If equity prices had been 10% higher (lower), with all other variables held constant, the other comprehensive income would increase (decrease) by RUB 4,551 million.

(in millions of Russian rubles, unless otherwise stated)

d) Fair values and carrying amounts

A comparison of the fair values and carrying amounts of the Group's financial instruments is presented below, with the exception of those financial instruments, the carrying value of which corresponds to their fair value:

		31 December 2019		Level of fair value hierarchy		
Financial instruments	**Note**	**Carrying amount**	**Fair value**	**1**	**2**	**3**
Financial assets measured at amortised cost:						
Non-current bank deposits	18	3,131	7,055	–	–	7,055
Non-current trade receivables	21	76,778	76,772	–	–	76,772
Financial assets measured at fair value through profit or loss	18	247	247	–	–	247
Financial assets measured at fair value through other comprehensive income:						
Investments in an equity instruments	18	45,620	45,620	45,507	–	113
Financial liabilities measured at amortised cost:						
Borrowings	26	(524,198)	(526,705)	(86,214)	(299,323)	(141,168)
Non-current accounts payable	29	(23,797)	(23,404)	–	–	(23,404)
		(422,219)	**(420,415)**	**(40,707)**	**(299,323)**	**(80,385)**

		31 December 2018		Level of fair value hierarchy		
Financial instruments	**Note**	**Carrying amount**	**Fair value**	**1**	**2**	**3**
Financial assets measured at amortised cost:						
Non-current bank deposits	18	2,886	4,904	–	–	4,904
Financial assets measured at fair value through profit or loss	18	431	431	–	–	431
Financial assets measured at fair value through other comprehensive income:						
Investments in an equity instrumentы	18	37,922	37,922	37,809	–	113
Financial liabilities measured at amortised cost:						
Borrowings	26	(566,305)	(561,689)	(103,251)	(317,181)	(141,257)
		(525,066)	**(518,432)**	**(65,442)**	**(317,181)**	**(135,809)**

(in millions of Russian rubles, unless otherwise stated)

The interest rate used to discounting expected future cash flows for long-term receivables for the purpose of determining the disclosed fair value at 31 December 2019 was 4.95 – 9.63%.

The interest rate used to discounting expected future cash flows for non-current accounts payable for the purpose of determining the disclosed fair value at 31 December 2019 was 5.38 – 8.84%.

The interest rate used to discounting expected future cash flows for non-current and current borrowed funds for the purpose of determining the disclosed fair value at 31 December 2019 was 4.87 – 8.84% (31 December 2018: 7.35 – 9.27%).

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

	Financial assets measured at fair value through profit or loss	**Financial assets measured at fair value through other comprehensive income**
At 1 January 2019	**431**	**37,922**
Selling	(28)	(2,167)
Change in fair value recognized in other comprehensive income	–	9,865
Change in fair value recognized in profit or loss	(156)	–
At 31 December 2019	**247**	**45,620**

e) Capital management

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

The Group monitors equity structure dynamics (own and borrowed capital), including gearing ratio (target limit on financial leverage), calculated on the data presented in its statutory financial statements prepared in accordance with the Russian Accounting Standards. According to the Group's credit policy, the Group should ensure that its gearing ratio, being the total debt divided by the total equity, does not exceed 1.

The company and its subsidiaries are required to comply with the statutory requirements for the adequacy of own capital, according to which the value of its net assets, determined in accordance with the Russian Accounting Standards, must consistently exceed the amount of the share capital.

The Group's debt-to-equity ratio was as follows:

	Carrying amount	
	31 December 2019	**31 December 2018**
Total liabilities	1,065,474	1,023,670
Less: cash and cash equivalents	(79,013)	(84,056)
Net debt	**986,461**	**939,614**
Equity	1,584,105	1,494,962
Debt-to-equity ratio	**62.27%**	**62.85%**

34 Capital commitments

As at 31 December 2019, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment items for RUB 254,410 million including VAT (as at 31 December 2018: RUB 256,644 million including VAT).

35 Contingencies

a) Insurance

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

b) Taxation contingencies

Russian tax legislation is subject to varying interpretations regarding the operations and activities of the Group.

Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by the relevant regional and federal authorities. Russian tax administration is gradually strengthening. In particular there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of decision to perform tax review. Under certain circumstances reviews may cover longer periods.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to Organisation for Economic Co-operation and Development (OECD) guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, as tax audits for compliance with the new transfer pricing rules have recently begun.

However, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on these consolidated financial statements.

Depending on the further practice of applying the property tax rules by the tax authorities and courts the classification of moveable and immoveable property set by the Group could be argued.

The Group’s management does not exclude the risk of resources outflow and its impact can not be sufficiently estimated.

Management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax positions will be sustained.

c) Legal proceedings

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

(in millions of Russian rubles, unless otherwise stated)

d) Environmental matters

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

e) Guarantees

As at 31 December 2019 the Company acts as a guarantor to Infrastructural Investments – 3 LLC for the performance of its subsidiaries' obligations under lease agreements. The total amount of the guarantee is RUB 11,556 million (as at 31 December 2018: RUB 11,556 million).

36 Related party transactions

a) Control relationships

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

b) Transactions with the key management personnel

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

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

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

	Year ended 31 December 2019	**Year ended 31 December 2018**
Short-term remuneration to employees	1,039	777
Post-employment benefits and other long-term benefits (including pension plans)	(50)	(20)
Total	**989**	**757**

As of 31 December 2019, the carrying value of defined benefit plan, defined contribution plan and other post-employment benefit plans reported in the consolidated statement of financial position includes liabilities related to the key management personnel for RUB 7 million (31 December 2018: RUB 57 million).

c) Transactions with state-related entities

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

Revenue from government-related entities for the year ended 31 December 2019 comprise 37% of total Group revenue (for the year ended 31 December 2018: 36%), including 38% of electricity transmission revenues (for the year ended 31 December 2018: 38%).

Electricity transmission costs (including compensation of technological losses) for government-related entities for the year ended 31 December 2019 comprise 31% of total electricity transmission costs (for the year ended 31 December 2018: 34%).

For the year ended 31 December 2019 interest expenses on government-related banks loans amounted to RUB 16,095 million (for the year ended 31 December 2018: RUB 13,632 million).

As at 31 December 2019 cash and cash equivalents held in government-related banks amounted to RUB 27,566 million (as at 31 December 2018: RUB 65,812 million).

As at 31 December 2019 deposits with an original maturity of more than three months placed in state-related banks amounted to RUB 57,392 million (as at 31 December 2018: RUB 45,991 million).

Information of borrowings received from state-related banks is disclosed in Note 26 “Borrowings”. Lease obligations (as part of borrowings) for government-related entities amounted to RUB 21,867 million as at 31 December 2019.

The assets exchange transaction with JSC “Far Eastern Energy Management Company” (government-controlled entity) is disclosed in Note 10 “Other income and other expenses”.

37 Events after the reporting period

As at 17 March 2020 the Group acquired:

- 49% share in Charter capital of Infrastructural Investments – 3 LLC paid in cash in the amount of RUB 133 million and и legal claim for a joint loan at RDIF Asset Management LLC paid in cash in the amount of RUB 481 million,
- 51% share in Charter capital of Infrastructural Investments – 3 LLC paid in cash in the amount of RUB 139 million and legal claim for a joint loan at Thirty Seventh Investment Company LLC paid in cash in the amount of RUB 500 million.

The transaction price was determined based on the valuation of an independent appraiser.